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THE POLITICAL ECONOMY OF PENSIONS:
POWER, POLITICS AND SOCIAL CHANGE
A COMPARATIVE STUDY
OF
CANADA, BRITAIN AND THE UNITED STATES

Two Volumes

Vol. I of II

Thesis

by

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ABSTRACT

This thesis suggests that the pension systems in the advanced capitalist countries of Canada, Britain and the United States are on the verge of a crisis and that the problems associated with the marginalization and immiseration of the elderly, the universal and specific limitations of employer-based occupational pension plans and the underdevelopment of the state pension system are inherently and organically linked to the structure of private pension fund power.

The impending pension crisis in these countries is explained by four converging structural considerations: first, the inadequate level of retirement income of the elderly; second, the increasing proportion of elderly in the population and the costs associated with an aging population; third, the general and particular limitations of the private pension system; fourth, under conditions of advanced capitalism, the corporate sector and state appropriating the occupational and state pension systems as a source of investment and social capital respectively to meet their finance requirements.

The pension system now occupies a strategic position in advanced capitalist economies. The increasing economic power of pension funds is based on their role as financial intermediaries and institutional investors, with significant control over the economic surplus and reserve capital. The structure of pension fund power exhibits itself through formal and informal linkages to financial capital. The private pension system's investment and capital accumulation function has been transformed from a latent to a manifest function to supply the investment requirements of the economy and private sector. The private pension industry, characterized by a high degree of concentration and centralization of capital, increasingly facilitates the systemic fusion of the finance and industrial sectors of advanced capitalist economies. The symbiotic relationship between the corporate sector and private pension industry is identified as the primary economic and political obstacle to reforming and expanding the state pension system in the countries studied.

It is concluded that the dynamic of the conflicting structural interests underlying the pension crisis may generate a heightened awareness of power and politics in capitalist countries by transcending the traditional limitations of economism and welfarism. The pension issue, both in the short and long-term, may generate increased social tension manifesting itself through intergenerational, sectoral, political and industrial relations conflict. This may result in increased politicization and progressive alternative economic strategies based on the pension system's investment and capital accumulation function. Public policy towards aging and pensions identifies personal problems and structural issues which may have significance in terms of power, politics, and social change in the future.

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Mr David Winchester, Lecturer at the School of Industrial and Business Studies, University of Warwick, helped familiarize me with British source material; Dr Richard Hyman kindly turned his office into a lending library. Mr Norman Ginsburg, formerly Lecturer in Social Administration at the University of Warwick, served as a sympathetic sounding board. Mr John Bennett, Industrial Relations Librarian at the University of Warwick, and Fraser Russell, Librarian at the Saskatchewan Department of Labour, cheerfully and competently assisted me when called upon. Ms Judy McGann and Mr Kevin Murphy undertook the creative graphic work which appears in this study.

Upon my return from Britain I became Assistant Director, Pensions Branch, Saskatchewan Department of Labour. Being involved in concrete policy and program development work in the highly dynamic social security and pensions field allowed me to acquire some first-hand insight into public policy formulation. This undoubtedly accounts, in large part, for the prescriptive social policy orientation and tone throughout this thesis. That was a learning experience requiring the transition from academic

theory to bureaucratic practice. I was assisted in this metamorphosis by Mr George Ford, formerly Executive Director, Pensions Branch, Saskatchewan Labour. Mr Ford unwittingly served as critic and adviser with respect to many of the ideas and themes developed here. A superb research craftsman and a ruthless logician, he on more than one occasion saved me from committing major methodological errors.

The creation of a thesis is perhaps hardest on and lonelier for one's partner and family than for oneself. This was more than true for Marie-Claire Pommez, my wife. She brought an unfailing spirit of adventure, enthusiasm and co-operation to our year in Britain. She was a constant source of encouragement, support and strength. It was humbling, and perhaps ironic, that at a time when I was working in the field of aging and pensions, I should be able to watch our newly born twin daughters crawling about on the floor and starting to grow up. Life-cycle, indeed. Hopefully this thesis will contribute to a more secure old age for them. It was an exciting, and at times difficult, period for us all. It was our first experience as a family, and hopefully we are all the better for it. Marie-Claire realized how important this unique opportunity was for me to study and develop. Success, under unusual circumstances and in strange surroundings, was only possible as a result of her. It was Marie-Claire who understood that by Going Away we would be Coming Home.

All errors of fact, interpretation or conceptualization are solely those of the author.

DECLARATION

The candidate wishes to acknowledge that certain materials contained in this thesis have been used before. Some of the ideas and empirical data elaborated upon in this thesis were first presented in the following scholarly articles: "The Political Economy of Pensions: The Economic and Political Framework of Pension Reform", paper presented to the Canadian Centre on Policy Alternatives, Montreal, March 1981 and "The Political Economy of Pensions and the Crisis of the Welfare State in Canada", paper presented to the Fourth Bi-Annual Social Policy Conference, Carleton University, School of Social Work, Ottawa, April 1981.

CHAPTER 1

INTRODUCTION: TOWARDS A POLITICAL ECONOMY OF PENSIONS

"Much of modern social science has been a frequently unacknowledged debate with the work of Marx."

C. Wright Mills

"The concrete analysis of the concrete situation."

V. I. Lenin

1.1 Purpose of Study

The objective of this study is to contribute a critical analysis of pensions policy using the approach of Marxist political economy. The method adopted here is to identify and explore the linkages and interaction between those socio-economic structures and forces which will affect the development of social policy towards aging and pensions over the next thirty to fifty years in the advanced capitalist countries of Canada, Britain and the United States.

Political economy, as one approach to the social sciences, adopts a macroscopic and dynamic perspective to the study of social phenomena. By identifying those determinant or conflicting forces and institutions, the analytic tools of political economy may be used to predict, and ultimately test, the direction of future events. Such an approach is adopted here to the study of public policy towards the state and occupational pensions systems. It is the juxtaposition and interaction of the various factors identified in this study which is analytically and politically important.

1.2 Central Thesis

The central thesis developed here is that the public and private pension systems in Canada, Britain and the United States are on the verge of

a crisis. The impending pension crisis is explained by four structurally determined considerations, or motor forces, which converge in the future: first, the inadequate level of retirement income of the elderly, resulting in their economic immiseration and social marginalization; second, the increasing proportion of the elderly in the population and the costs associated with supporting an aging population; third, the general and specific limitations of the employer-based occupational pension system; and fourth, the corporate sector and state appropriating the occupational and state pension systems as a source of investment and social capital respectively to meet their finance requirements.

Conceptually, the aging of the population may be viewed as being independent of the state and occupational pension systems. That is, population aging is an exogenous factor which affects pension arrangements. The other three factors - the elderly's low level of retirement income, the general and specific limitations of the private pension system, and the investment and capital accumulation function of the occupational pension system in supplying the investment requirements of the corporate sector - are all conceptualized as being intrinsic, or endogenously related to the employer-based occupational pension system which is based on the power of private pension funds.

The institutional power of the private pension system is related to pension funds operating as financial intermediaries and institutional investors. Because private pensions funds as institutional investors are linked to the broader finance sector, the structure of pension fund power exhibits itself through formal and informal linkages and arrangements. The private pension industry is organically linked to the finance sector by economic structure and capitalist ideology. The private pension industry, characterized by a high degree of concentration and centralization of capital, increasingly facilitates the systemic fusion of the finance and

industrial sectors of advanced capitalist economies because of the role played by pension funds in channelling investment to the private sector. The private pension industry now occupies a position at the "commanding heights" of the economy because of the structure of private pension fund power and its impact upon capital markets. The symbiotic relationship between the corporate sector and the private pension industry is identified as the primary economic and political obstacle to reforming and expanding the state retirement income system in Canada, Britain and the United States.

The dynamic and logic of the conflicting structural interests underlying the pension crisis may, as shall be demonstrated, result in a heightened awareness of the nature of power and politics in capitalist countries by identifying "personal problems" as "public issues" which are structurally determined. The pension crisis may transcend the traditional limitations of economism and welfarism by raising issues related to power, politics and social change and may result in increased politicization and an opportunity to put forward progressive alternative economic strategies based on the pension system's investment and capital accumulation function.

State and private pension arrangements as the subject of public policy are potentially explosive because they incorporate the key elements of political economy: power, capital accumulation, industrial relations, politics and social change. The pension issue is volatile because it simultaneously affects the interests of all key segments and institutions of society: the elderly, workers, unions, the industrial and finance sectors, and the state. The issues involved will have a profound impact in the future upon social policy, capital formation, profit levels, collective bargaining and the economic well-being of workers and the increasing proportion of the elderly. The political economy of pensions identifies an important long-term social policy issue because it represents that historical

conjuncture where the interests of capital, labour and the state collide. The pension issue may become a major battleground, particularly in Canada, between the elderly, workers, unions, employers, and the state. Pensions and aging are integrally related and raise many important social policy and political issues.

Because this study adopts the method of Marxist political economy, it is a work of synthesis. This study is not intended to be an institutional or legislative history of state and private pension plan arrangements. This is outlined in Appendix A which is a comparative chronology of retirement income arrangements and reform initiatives in Britain, Canada, and the United States. Nor is this work intended to be a primer on pension plan design. An overview of current state and occupational pension plan program features in the U.K., Canada and the U.S. is provided in Appendix B. Many excellent scholarly studies and technical texts on these subjects already exist.¹ Nothing is constructively served by covering old ground or pouring old wine into a new bottle. What is often required for intellectual advancement, and what is attempted in this study, is to view old information through a new paradigm² in order to obtain new insights into social reality and the public policy issues of aging and pensions. As Mills suggested, "social research of any kind is advanced by ideas; it is only disciplined by fact."³

This is a comparative study of Canada, Britain and the United States as it relates to those institutions and forces which will affect the development of public policy towards pensions. The primary focus and emphasis is on the Canadian situation. British and American information is presented, as required, in order to compare and contrast the structures and forces examined in this study. Unlike the studies by Helco and Rimlinger,⁴ which are retrospective comparative analyses of social security history, this is a comparative prospective analysis.

1.3 Historical Background and Policy Context

There are a number of reasons why a comparative transnational study of the political economy of pensions in Canada, Britain and the United States deserves serious investigation: social and intellectual history, geopolitics, and the current public policy reviews of the state and employer-based occupational pension systems. These similarities are examined here.

1.3.1 Social and Intellectual History. All three countries studied share a similar, although by no means identical, social security history based on a common social and intellectual history and philosophy of social welfare. The early craft unions in colonial Canada and America based many of their activities on the functions performed by the British friendly and provident societies. The early origins of occupational pension plans in Canada were modelled on developments in Britain.⁵ Agitation for the introduction of a state pension system in Canada drew much "inspiration" from the United Kingdom and "events in that country were of particular interest".⁶ The non-contributory, means-tested old age pension was first introduced in Britain in 1908. Canada followed suit with its means-tested old age security (OAS) pension in 1927.

As a result of the trauma of the Great Depression and World War II, Britain and the United States were both moving toward forms of the liberal welfare state as embodied in Roosevelt's New Deal reforms⁷ and the Beveridge Report.⁸ "Thus events in both the countries which have most influenced Canada were moving to the acceptance of social security legislation"⁹ and served as a model for later Canadian initiatives. The United States introduced the earnings-related social security retirement system in 1935. Subsequently, Britain introduced an earnings-related state pension plan in 1959 (the Boyd-Carpenter Plan), while the Canada/Quebec Pension Plans were implemented in 1966.

Bliss has said that "the most important single document in the history of the welfare state in Canada" is Marsh's Report on Social Security of Canada published in 1943.¹⁰ Marsh may be viewed as the architect of the Canadian welfare state. Writing some twenty years after his report was issued, he said that his proposals

... were worked out quite independently, but the coupling of [the] Beveridge and Marsh reports led to some ill-informed allegations. The truth is that by 1941 there was a common stock of ideas and principles available to those who knew the literature.

One important factor generating "a common stock of ideas" was that Marsh was a student of Sir William Beveridge at the London School of Economics.¹² Furthermore, with respect to subsequent post-war social security program initiatives, it is of some relevance that Beveridge in the U.K., Marsh in Canada, and Burns in the U.S., all served together on the same ILO reconstruction committee in London during the Second World War.¹³

Even allowing for the distinctive evolution of national social security traditions, it is clear that there has been a "common stock of ideas" central to British, Canadian and American experience. These include certain similar features of program design, terminology, and the income tax regulations governing the state and employer-based occupational pension systems. The term "social security" was itself American, replacing the term "social welfare" previously used in Canada, and "social insurance" followed in Britain. Even today there is a close similarity between the new Inland Revenue Code in the U.K., Revenue Canada's Interpretation Bulletin and the American Internal Revenue Service's regulations governing occupational pension plans. The social security and private pension systems studied here all evolved from a common British origin, and have followed a roughly parallel course of development, while of course manifesting unique national characteristics.

1.3.2 Geopolitics. Canada has been linked to Britain and the United States by language, culture, politics and economic relations. Politically and economically, Canada was first a colony of Great Britain. In the mid-nineteenth century there was steep investment in infrastructure, such as railroads, by British investors. Political institutions, cultural background (the Quebec fact notwithstanding) and trading patterns all served to establish an east-west Anglo-Canadian link.

Beginning in the 1920s, American transnational corporations penetrated Canada and expanded their influence. They brought with them their industrial relations practices, including occupational pension plan arrangements. American social welfare and social work practices influenced Canadian developments during the 1930s and 1940s.¹⁴ In the post-World War II period the Canadian economy has become so influenced by American corporations that it is often characterized as being a dependent "branch plant" economy. Canadian economic affairs and culture are now dominated by the north-south relationship which affects all facets of life. Canada has been at the focal point of British and American socio-economic influences.

1.3.3 Public Policy Reviews. Retirement income arrangements in Canada, Britain and the United States have been the subject of an intensive public policy review in recent years. Pension reform, particularly in Canada, is now viewed as a major issue of public policy and the environment surrounding this issue in all three countries is extremely dynamic and fluid. This reflects, in part, the similar problems found in each of these countries' pension systems.

In Canada there has been a prolonged and intense public policy review, inaugurated when the Ontario Royal Commission on the Status of Pensions was created in April 1977. Since that time, no less than a dozen government, task force, Senate, Royal Commission and private research

reports have been issued with recommendations for the reform of the Canada/Quebec Pension Plans (C/QPP) and the private pension system. The federal government sponsored a highly publicized multi-partite National Pensions Conference on pension reform in March 1981. Pension reform was considered to be one of the federal Liberal government's highest ranking priorities in the social policy area. Subsequently, bilateral discussions took place between the federal and provincial governments. The February 1984 Budget introduced a number of measures to reform the private pension system. With the election of a new Conservative government in the fall of 1984, pension reform is yet to be consummated.

The United States implemented the Employee Retirement Income Security Act 1974 (ERISA) after a period of lengthy Congressional inquiry and public discussion. This was a massive omnibus piece of legislation, resulting for the first time in the uniform and systematic regulation of private sector pension plans in the U.S. Subsequently, the Carter administration in 1979 established the President's Commission on Pension Policy which reported in February 1981 with major recommendations for the strengthening of the social security system and private pension plans. The Reagan administration implemented a number of the recommendations of the National Commission on Social Security Reform.

In Britain in the post-war era there have been no less than three major reviews and overhauls of the state social security system. In addition, there have been three pieces of legislation implemented to regulate occupational pension schemes. The most far reaching reform measures were introduced in the Social Security Pensions Act 1975 (the Castle Plan). The Occupational Pensions Board in the intervening period has issued three major reports calling for further pension reform. Just prior to its defeat in 1979, the Labour government issued a highly controversial white paper on the co-management of pension plans. The final report of the Wilson

Committee to Review the Functioning of Financial Institutions (1980) was an in-depth inquiry into the impact of pension funds, and other institutional investors, on capital markets. The 1985 green paper on the reform of social security, with its recommendation to eliminate the state earnings-related pension system (SERPS), and the subsequent white paper's proposal to introduce personal portable pensions (PPP), are indicative of the Conservative government's concern with pension issues.

The policy reviews of the public and private pension systems in each of these countries have not gone unnoticed by their respective counterparts. In Canada, for example, the British system of "contracting-out", where an occupational scheme can opt out of the state plan under certain conditions, has received some interest and study. The U.S. President's Commission on Pension Policy recommendation for mandated private pension plan coverage has received some support from the Canadian private pension industry. The Anglo-Canadian-American link has created its own demonstration effect.

The public policy reviews in each of these countries have revealed a series of similar issues: the inadequate retirement income of the elderly, the economics of an aging population, the universal and particularistic limitations of employer-based pension plans, the impact of private pension funds as institutional investors upon capital markets, and the use of pensions for economic development. These issues and their significance for power, politics and social change are the subject of this study.

1.4 Analytical Framework

The approach of Marxist political economy¹⁵ attempts to analyze the interaction of various social phenomena and relate them to a particular mode of production and social formation according to the principles of historical and dialectical materialism. The methodology of political economy as applied here to pensions and aging attempts to

integrate such diverse subjects as the sociology of aging, historical demography, social gerontology, the social history of aging, and the formal aspects of social security and pension plan design, administration, and investment management.

In recent years virtually every institution and facet of capitalist society has been subjected to critical analysis: the state, income distribution, education, housing, health-care, role-typing, industrial relations, racism, and so forth. Whither state social security retirement systems and employer-based occupational pension plans? Why have progressive social policy analysts not studied state and private pension arrangements from a critical perspective? And why have pensions been ignored in terms of radical economic analysis? A critique is as much concerned with the "silences" of a theory, that is, what is not said, as with what is articulated. The fact that the state and occupational pension systems have not been analyzed, until very recently,¹⁶ from the perspective of political economy rather than that of social history,¹⁷ ideology,¹⁸ social work,¹⁹ or social policy²⁰ is peculiar, if not disturbing. The "silences" are deafening.

Here it is suggested that six reasons account for this traditional lack of concern with respect to a critical economic analysis of the role, function and impact of the state and private pension systems. In the first instance, state and private pensions have traditionally been subsumed under the broad generic heading of "social welfare". The term "social welfare" is imprecisely defined, cutting across such fields as health, welfare, education, retirement income and so forth. Further confusion results from the fact that "social welfare" programs are often described in terms of their value to individuals and sometimes in terms of their social functions. Difficulty also arises from the absence of any standardized terminology: the terms "social security", "social services", "social welfare" and "social work" have no fixed meaning and are all too often used interchangeably and imprecisely. Since

pensions have been treated under these broad headings, they have not become a distinct, independent object of critical study. Thus one contemporary study of class and social policy, for example, completely circumvents any analysis of "the very important question of pensions" because of "insufficient space".²¹ Another recent study on the political economy of the welfare state relegates pensions to a footnote.²²

A second reason why pensions have been ignored, perhaps understandably so, is that the technical subject matter seems to be complex and dull. This is compounded by an archane and often obscurantist technical jargon which is enough to deter even the best intentioned. While social activists in recent years seem to have been able to master the technical subject matter of law and medicine, that of compound interest and present value seem to have escaped them.

A third reason why pensions and related issues have seemingly been ignored is because of "juvenocentrism": that is, those who are being trained in the various "helping professions" tend to be young. Being old, and the problems associated with the elderly, are outside their personal frame of reference. It is not uncommon for schools of social work, for example, to cancel courses in the sociology of aging or social gerontology as a result of a lack of interest on the part of young students.

Fourth, social policy analysis has traditionally been concerned with the level of benefits generated from the state and private pension systems, and their adequacy, rather than probing deeper underlying issues. This is perhaps understandable given the humanistic origins of liberal and socialist ideology. But the emphasis on benefit adequacy has tended to obscure and limit any deeper analysis and understanding of the economic relationships associated with pensions. Put another way, the preoccupation with the adequacy of pension benefits has limited economic analysis and is a reflection of a deeper "economism".

A fifth and highly significant reason why state and private pension plans have not been subjected to serious analytical consideration is that they have been incorporated into broader based ideology and social philosophy. Adequate pension benefits have been equated with a "social right" to which all people are entitled based on "human need". Such notions as "social right", "social obligation", "human need" and "social justice" are moral considerations however, not analytical categories. Invoking such idealistic and subjective moral considerations has resulted in analytic mystification. To the extent that social welfare analysis has cloaked itself in such subjectivism has meant that it has not placed the study of pensions in established, analytical, economic categories. Ideology has therefore obscured reality.

Sixth and last, whether explicitly articulated or not, there has been an unintended convergence between liberal social welfare and Marxist analyses which tend to view pensions (state and private), and social security expenditures more generally, as a "free good". That is, pensions are viewed as a consumption good which have no cost associated with them. Merely to suggest that the distributional aspects of "many social problems are primarily issues involving conflicts of economic interests between... various social classes"²³ may describe everything but analyzes nothing. The implicit assumption underlying many current analyses is that pensions are a "free good" because they are a "social right". Economic calculus is rarely applied to what are perceived of as "rights". Such views are a form of subjectivism because pensions are no longer related to a particular mode of production, or social formation, and the economic relations governing them. It is because the "laws of economics" seem to have been ignored that many commentators have implicitly viewed pensions as a "free good", requiring no further economic analysis with the tools of Marxist political economy.

The laws of economics govern the allocation of resources in all societies - capitalist as well as socialist. In Marx's words, some laws of

economics have "universal validity [and] are so self-evident that there is scarcely need...for their special study"²⁴ and "no natural laws can be done away with. What can change, in changing historical circumstances, is the form in which these laws operate."²⁵ The neo-classical economic model, including the law of supply and demand, and the allocative mechanism derived from budget constraints and production functions, are an integral part of classic Marxian political economy. As Sweezy has asserted, "the competitive supply-and-demand theory...forms an integral, if sometimes unrecognized, part of the labor theory [of value]."²⁶ Shedding such subjective and idealistic notions as pensions being a "social right", or a "free good" based on "human need", allows economic analysis to proceed unfettered by ideological blinders. The study of pensions can thus be placed within the analytical categories of the labour theory of value, the reproduction of labour power and the circulation and accumulation of capital associated with the Marxian economic model.

Traditional analyses of the role and function of the state and private pension systems have, until recently, been primarily concerned with analyzing the manifest functions of the pension system. By situating pensions within the Marxian framework of economics and its analytical categories, it is possible to identify the underlying economic functions and relationships that the pension system fulfills under conditions of advanced capitalism. One of the economic functions of the state and private pension systems is to augment the capital accumulation process in advanced capitalist societies. As a result of a complex interaction of factors, the latent capital accumulation function served by the pension system is now being qualitatively transformed into a manifest function. Pensions are an integral part of the broader socio-economic system and their economic functions must be critically analyzed as such.

If the recent critical literature is any example, two tendencies can be identified with respect to the study of the state social welfare

system.²⁷ In one instance, those who analyze "social welfare", including pensions, from the perspective of the legitimization and coercion functions of the state, exclude the capital accumulation function from their framework. Alternatively, where the capital accumulation function is made central to the analysis, the coercion and ideological functions associated with the pension system are excluded from the analysis. If the method of classic Marxist political economy has any relevance, it is to synthesize and integrate different "levels" of a complex, total social reality. This means integrating the social, cultural and economic dimensions of existence and laying-bare the "laws of motion" without resorting to a crude determinism or global abstractions which obscure a complex reality.

The methodology of Marxist political economy as applied to pensions and aging assumes a new relevance with respect to the current public policy reviews in Canada and Britain, and that recently concluded in the United States. To use the method of political economy one critical sociologist noted, "that does not incorporate the reworked and reanalyzed accomplishments of the various social sciences in the last half century is a form of sectarian fundamentalism."²⁸ A "theoretical analysis of the social totality requires the integration of the various 'empirical' disciplines."²⁹ Because the political economy of pensions, like the social sciences more generally, "has a dialectical character and contains both repressive and liberative dimensions",³⁰ it suggests that only an integrated "social science approach... can offer new understanding of the aged, new solutions to their problems... and new definitions of their social role."³¹ A balanced approach to the political economy of pensions must therefore incorporate a critical economic analysis of pension arrangements and the object for which pensions ostensibly exist: the elderly.

1.5 The Conjuncture: The Elderly, Aging, and Pensions

"To be aware of the idea of social structure," Mills wrote, "is to be capable of tracing... linkages among a great variety of milieux".³² It

is within this context that the political economy of pensions must be studied for it represents the conjuncture, or intersection, between old age as a personal experience and the pension system as part of the broader socio-economic structure.

The pension issue cannot be separated from considerations related to the social and cultural history of aging,³³ and the broader social and economic position of the elderly in our society. The history of the aged and aging is more than the formal institutional history of state and private pension arrangements and their evolution.³⁴ To place the pension issue in its proper historical perspective requires that workers, social security administrators and social scientists confront what one social historian has called "the culture of aging".³⁵ It has been succinctly argued that "old age is an age-old problem, and a distinct culture has surrounded it for centuries" and the "problems in dealing with old people go far deeper than the evils of capitalism;... they lie deep in our cultural heritage."³⁶ Put simply, society's dominant attitudes towards the elderly have a cultural and social dimension. Like racism and sexism, cultural attitudes towards the elderly and aging pre-date the advent of industrial capitalism. The cultural attitudes towards aging and the elderly carried over from pre-industrial formations is a classic example of what Marx meant when he said that "the tradition of all the generations weighs like a nightmare on the brain of the living."³⁷

The history of aging suggests that there are a series of universal and persistent attitudes and problems experienced by the elderly. These cultural manifestations often have a dynamic of their own, relatively independent of social structure. Cultural attitudes are not a mere mechanical "epiphenomeon"³⁸ or reflection, to use Marx's phrase, of the broader economic structure. As Engels forcefully stated, if the materialist conception of history is twisted so that

the economic element is the only determining one, he transforms it into a meaningless, abstract and absurd phrase...[The] various elements of the super-structure...also exercise their influence upon the course of the historical struggles and in many cases preponderate in determining their form. There is an interaction of all these elements.³⁹

Within the context of the history of aging it is interesting to observe that "older workers have received little attention from labour historians, their fate lamented only in passing."⁴⁰ Much more is known about the history of women, childhood, ethnic groups and unions than the experience of older workers and how they perceive their reality. Recent research in labour and social history for the United States and Canada has, unfortunately, completely ignored the working class experience with aging and the reality surrounding it.⁴¹ The evidence which exists suggests that working class culture has had little veneration for the elderly.⁴² "To be old and poor," according to Fischer, "was certainly not to be venerated, but rather to be despised."⁴³ This lack of interest in the historical experience of the aged, and particularly elderly workers, is largely attributable to older people being used "to service the needs of larger and more powerful elements of the population."⁴⁴ As a result, "of all the silent groups yet uncovered by historians dealing with history 'from the bottom up', the elderly as a group ... remain the most inarticulate."⁴⁵

The cultural dimension of the political economy of pensions exhibits itself in the form of agism and gerontophobia.⁴⁶ Agism, like sexism, is a prevailing and pervasive social attitude. Like sexism, agism is institutionalized and legitimized. Agism exists in employment, retirement practices, social stereotypes, legislation, income distribution, and the generally negative social attitudes towards the aged. One study concluded that while there have been some modest advances made against racism and sexism in recent years, the relative status of the elderly is declining and "age inequality appears to be getting substantially worse".⁴⁷

The current inadequacies of the private and public pension systems are a reflection of the more general condition of the aged. The elderly in our society are deprived of status, authority and economic security. The aged lack adequate income, respect and purposefulness because of dominant negative social attitudes which are ascribed to aging and the elderly.⁴⁸ Most people still hold images and stereotypes of the elderly that existed earlier in the century.⁴⁹ Generally people do not consider the aged very active, alert, efficient, or contented.⁵⁰ There is a tremendous discrepancy between what old age is expected to be like and the actual experience of old people. At a social level, the inadequacies of the pension system exist because our youth-oriented society does not value the elderly as people.⁵¹

The socio-economic position of the elderly is not dissimilar to that of women and various ethnic minority groups. The elderly, like these other groups, are in general poor, vulnerable and victimized. This situation may be changing, however, as the elderly, and these other strata, are now becoming increasingly articulate, organized and vocal in defining their own interests and needs, as opposed to having them defined for them by other institutions with ulterior motives.⁵²

There is a considerable difference between the retirement experience of an elderly slave and that of a patrician, and that of an aged labourer and industrialist, as de Beauvoir reminds us in her classic history of aging.⁵³ Recognizing the class basis for the difference in the aging experience, however, in no way negates the general proposition that there are certain universal problems and attitudes experienced by the elderly. The aging experience and the problems associated with it, both at the social and personal level, are dialectical in character in that they are universal and historically specific. This in many ways parallels the position of women. Both the elderly and women constitute a stratum within their respective social classes.⁵⁴ "Older people share with each other their chronological

age, but factors more powerful than age," one study concluded, "determine the conditions of their later years."⁵⁵ Fundamentally what is at issue are not just matters of economic analysis, or the social security programs evolved by the capitalist welfare state, although these certainly are important, but our society's cultural attitudes towards the elderly and how these affect public policy. Underlying the pension issue is the quality of life experienced by the current and future elderly. The elderly are increasingly developing their own life-style and are asserting their right to self-esteem, dignity, and above all, independence. In this regard an expanded public pension system is a crucially necessary, but not sufficient, condition to improve the position of the elderly. To improve the position of old people in advanced industrialized societies requires major attitudinal and cultural changes, in addition to substantial reform of the pension system.

Increasingly there is a risk, because pensions are viewed as an economic problem, that the elderly will be defined as a "burden", and a "problem" themselves. The aging of the population in industrialized countries, especially in Canada and the United States, with all its economic and social implications, suggests that the elderly may be perceived in the future as a "social problem" of the first magnitude.⁵⁶ Because "old age has become," as de Beauvoir noted, "the object of a policy",⁵⁷ if the elderly become a high profile "social problem" like the unemployed, unions, Blacks and the Quebecois, they may become the target of less benign welfare state policies in the future.

It is "mechanical reductionism"⁵⁸ of the worst type to simplify the process of aging and the experience of the elderly to the cash nexus as represented by pension arrangements. The aged are more than the stagnant form of the industrial reserve army,⁵⁹ and social security expenditures are considerably more complex than only being a form of variable capital⁶⁰ or "social wage".⁶¹ Limiting the current public policy review of pension arrangements solely to the issue of benefit adequacy perpetuates

a narrow view of the problems associated with aging and reinforces the elderly's status as a dependent social category. Money alone will not resolve the problems associated with old age. Such a view is the best form of liberalism, and the worst type of "economism". It is vulgar and simplistic because it ignores the totality of the social reality and the complex series of issues related to the elderly and aging.

The history of aging may contain within it the potential for progressive social change because "an adequate policy for old age...has to be much more than a policy for pensions. It has to be a policy which will help the elderly find a new way of life."⁶² To question the quality and meaning of one's existence in old age is to begin to inquire about the purpose of one's entire life. The difficulties associated with old age for workers is nothing but a continuation of what has gone before, because the injury a worker "has suffered during the course of his life is...radical. The reason that the retired man is rendered hopeless by want of meaning in his present is that the meaning of his existence has been stolen from him from the very beginning."⁶³ To be treated differently in old age therefore requires that a person be treated as a human being during his entire life. This being the case, "it is the whole system that is at issue and our claim cannot be otherwise than radical - change life itself."⁶⁴ A political economy of pensions which incorporates and is sensitive to the history of the aged and aging may become a liberative tool because it offers an analysis of the interrelationship between the individual and collective condition of the elderly and broader social institutions and structures.

1.6 Plan of Study

The plan of attack and organization is straightforward. Each chapter identifies and analyzes an element in the political economy of pensions and discusses the interrelationship between these elements. Chapters 2 through 5 examine those important socio-economic trends and

institutional arrangements underlying the pension issue: the economic position of the elderly, the economics of an aging population, the universal limitations of the private pension system and the specific inadequacies of pension arrangements under conditions of collective bargaining.

Chapters 6 through 9 identify and examine those economic functions and structures associated with the operation of the pension system which have resulted in it assuming a strategic position in advanced capitalist economies: the pension system's saving, investment and capital accumulation function; the institutionalization of capital markets and investment; the structure and power of pension funds based on the concentration and centralization of capital and linkages to the broader finance sector; and the pension system's investment function facilitating the interpenetration and interdependence of financial and industrial capital into an unified nexus of corporate power. Expansion of the state pension system in advanced capitalist countries is opposed by the private pension industry and the corporate sector because it would result in reducing the level of investment flowing to the private sector and diminish the market share and profits of the private pension industry. As a result of this symbiotic relationship the underdevelopment of the public pension system and the impoverishment of the elderly are perpetuated.

The main conclusion in Chapter 10 is that the pension system in Canada, Britain and the United States is on the point of a crisis because a series of conjunctural factors converge in the future for the reasons identified and analyzed in this study. The pension crisis may, in turn, result in the politicization of the pension issue. Because the pension system in capitalist economies occupies a strategic position it may, however, be used to develop progressive strategies for social change. Current and proposed macro-and-micro alternative investment strategies are reported and assessed. Through the investment function underlying the operation of the state and private pension systems it is possible to exercise control over the

industrial sector, investment and capital formation in the public interest. Progressive strategies for social change based on the pension system are examined from a Marxist perspective and are related to the issue of the transition from capitalism to socialism.

1.7 A Note on Terminology and Sources

The terminology associated with social security systems and employer-based pension plans often seems technical and obscurantist to the uninitiated layman. Every effort has been made here to reduce technical terminology and jargon to a minimum without doing injury to the subject.

A transnational study invariably has a problem of comparable terminology. Although actuarial science has tended to standardize the usage of technical terms, each national social security and employer-based pension system has adopted a different nomenclature. To assist the reader a glossary of Canadian, British and American pension terms has been included as Appendix C.

A number of key terms are used frequently throughout this study and require a brief explanation. As used here the terms "state" or "public" pension plan or system is used interchangeably to denote the national government sponsored "social security" or "social insurance" retirement income system for eligible contributors. The terms as used here refer only to retirement benefits. The terms "private" or "occupational" pension plan refer to employer-based pension plans at the level of the firm or industry regardless of whether they exist in the private or public sectors. Public sector pension plans are referred to as "public employee" pension plans to differentiate them from the state (public) pension system. The context in which the terms are used should be self-explanatory.

An international study such as this must of necessity draw upon a wide variety of disparate sources. Every effort has been made to put all statistical data on a consistent and comparable basis. An inevitable

frustration is that government statistical sources when published are usually two years behind the reporting date for the information. Rather than constantly rework a ream of statistical information as writing commenced, some slightly dated material has been included if subsequent information revealed no significant change. In order to minimize reporting and conversion difficulties, all monetary figures are presented in national currency units unless otherwise indicated.

CHAPTER 2

THE CONDITION OF THE ELDERLY: IMMISERATION AND MARGINALIZATION

"A man's aging and his decline always takes place inside some given society: it is intimately related to the character of that society and...the place that the individual in question occupies within it. In itself the economic factor cannot be isolated from the social, political and ideological superstructures that contain it."

Simone de Beauvoir

2.1 Introduction

Aging is a socially defined process, individually experienced. The economic and social position of the elderly must accordingly be analyzed in terms of both its universality and specificity. "Men make their own history, but they do not make it just as they please," Marx wrote, "but under circumstances directly encountered, given and transmitted from the past."¹ The current social and economic position of the elderly in industrialized societies is a product of the historical process which preceded it. The position of older people in society is central to the study of the political economy of pensions because the elderly are the object of pension policy.

Two topics are presented and developed in this chapter. First, the economic position of a significant proportion of elderly throughout history has relegated them to a clearly identifiable lower stratum of society characterized by economic immiseration and social marginalization. There are both class-based and universal characteristics and problems associated with aging. While "one of the main functions of social class" in industrialized societies "has been to prepare a differential response to aging" the "elderly have encountered special problems, as a segment of the

population, for centuries."² There is no mechanical relationship between the position held by the elderly and the mode of production. Like racism and sexism, the elderly's insecure economic position and the negative social values ascribed to aging and older people pre-date the rise of industrial capitalism.³ Both high and popular culture have continuously disdained old age and the elderly. Pre-industrial France⁴ hardly venerated the old, and widely-held negative attitudes towards aging were clearly evidenced in the United States before capitalist industrialization took off.⁵

Agism and gerontophobia,⁶ as negative social attitudes towards the elderly, are universal phenomena regardless of their present specific institutionalized and legitimized forms. While Marx analyzed the elderly as constituting the stagnant form, or Lazarus stratum, of the industrial reserve army along with the disabled, orphans and paupers, as a result of their peripheral attachment to the capitalist labour market,⁷ in general the "old have consistently been treated unkindly in Western culture",⁸ both in pre-industrial and industrialized societies.⁹ To attribute the position of the elderly solely to the capitalist mode of production, without recognizing the relatively independent cultural and social dimensions of aging is to engage in, to use Lukacs' formulation, an "un-and-anti-historical" analysis. "All history must be studied afresh," Engels recognized, because "the conditions of existence of the different formations of society must be individually examined before the attempt is made to deduce from them the...[cultural] notions corresponding to them."¹⁰ For the elderly, unlike Engels' Manchester working class, there has never been an idyllic paradise lost.¹¹ There has been no lost golden age for the elderly. The elderly have always constituted and continue to be one of the poorest strata of society.

The second proposition put forward is that the current economic position of a significant proportion of elderly in the advanced capitalist countries of Canada, Britain and the United States is generally one of

poverty and social dependency. The elderly's position in the modernization process has been the subject of considerable scholarly debate. The dominant "deterioration motif" has argued that "modernization has thus far tended to devalue old people and to reduce their status"¹² and economic position. But the more recent liberal gerontological literature claims that "we must not suppose that the sufferings of some of the aged, and the miseries of the minority ... are a proper indication of the condition of old people generally in ... society"¹³ because "a nationwide institutional approach ... has helped to improve elderly people's overall financial situation."¹⁴ Such assertions are an ideological reaffirmation of the liberal faith in the welfare state's incrementalism,¹⁵ but are founded on statistical artifacts rather than social facts. The empirical evidence presented here suggests that the current economic position of the elderly in Canada, Britain and the United States is characterized by widespread poverty. There is an historical continuity between the past and present economic position of the elderly. The contemporary economic position of the elderly in these countries is a continuation of the historical process which has relegated the aged to the lower stratum of society.

Aging occurs "within definite class relationships," Corrigan and Leonard have suggested, therefore "we must first understand the structural determinants of working-class old age."¹⁶ It is suggested here that the primary structural determinant is the economic position of the elderly. A corollary is that to the extent that the position of the elderly has improved, it is a result of government intervention through the creation and expansion of the welfare state and the public pension system rather than through private sector initiatives.

2.2 The Historical Position of the Elderly

The elderly have occupied a precarious social and economic position as an inarticulate lower stratum of society throughout history.¹⁷

The condition of the elderly has been characterized by their continuous immiseration from at least the early nineteenth century to the present time.

In British North America between 1815 and 1850 there is clear evidence that outdoor labourers, immigrants, women, the very young, sick and old were impoverished, particularly in the winter.¹⁸ In Hamilton, Ontario, a rapidly industrializing centre in the early 1850s, the relationship between age and wealth corresponded roughly to the relationship between occupation and age. In the mid-1880s the City of Hamilton began to pay pensions to public employees,¹⁹ who constituted the second largest occupational group over the age of 60.¹⁹ While those over the age of 60 represented only 6 per cent of the entire population of Hamilton, they accounted for 30 per cent of those who were poor.²¹ During the 1889 Royal Commission hearings on the relations between capital and labour, an exchange between Chairman A. T. Freed and Hamilton M.P. Alex McKay offers an interesting insight into the extent of poverty among the elderly.

Q: Are those who are chronic applicants [for relief] such through illness, or physical disability, or mental disability or old age, or are they able-bodied people?

A: Of those that go by the term "chronic applicants" a large proportion are old women and men, and who apply on account of old age, poverty and so [on].²²

While quantitative data is lacking, such information suggests that the elderly poor were a clearly identifiable social category during the period of early industrialization in Canada.

In Britain, Booth's 1891 estimates designated nearly 39 per cent of those age 65 and over as paupers.²³ The 1893 Royal Commission on destitution and old age reported that it was shocked by the "deplorable fact, that so large a proportion of the working classes are in old age in receipt of poor relief".²⁴ Based on various government studies between 1890 and 1906, 15 to 20 per cent of the elderly were labelled as paupers.²⁵ The Old Age Pension Act 1908, providing a non-contributory, means-tested benefit

of 5 shillings a week, was recognized at that time as being 2 shillings per week below the subsistence minimum.²⁶

Evidence to the Canadian House of Commons Special Committee on Old Age Pensions, convened between 1911 and 1913, gives a general impression of the extent of poverty among the elderly. The Salvation Army Commissioner for Canada testified that poverty among the aged was widespread not only in the large urban centres, but in smaller towns and villages as well.²⁷ The superintendent of Children's Aid Societies for Ontario reported that "there are thousands of worthy citizens...leading useful and respectable lives, who...live under the constant shadow of having to spend their declining years in penury and abject dependence on others."²⁸ For the aged it was "a hopeless, heartless life".²⁹

In the United States in 1910 at least 35 per cent of those over the age of 55 were below the elderly couple's family budget.³⁰ During the 1920s, at the height of American prosperity, it has been estimated that anywhere from 40 to 67 per cent of all older Americans could not support themselves.³¹ It was during this period that one reformer could say that, "old age, merely by that name, is a synonym for poverty".³²

While there is no specific information with respect to the economic position of the elderly in Canada during the 1920s their situation can be inferred from that of the general population. According to the Economic Council of Canada, "most Canadians of the 1920's would be found to have been living below that [poverty] line."³³ Recent in-depth studies of the working class in Montreal and Toronto confirm this conclusion. In Montreal in the early 1920s the average annual income for adult male workers in occupations which involved two-thirds of the city's labour force was 20 to 30 per cent below the federal Department of Labour's family budget.³⁴ The Toronto working class fared little better. Between 1902 and 1917 the real average annual earnings for workers employed in the building trades and manufacturing declined by roughly 33 per cent; the

average annual earnings of blue-collar workers represented less than 64 per cent of what was required to support a family.³⁵ It is not unreasonable to suggest that if times were difficult for the active labour force, there must have been extreme hardship among the elderly.

Most of the social surveys conducted in Britain during the 1920s and 1930s, for example, the studies by Rowntree and Trout, all identified old age as one of the major sources of poverty. Rowntree's 1936 study found that old age accounted for nearly 15 per cent of the incidence of all poverty.³⁶ But this figure obscures how many of the elderly themselves were in dire straits. Stevenson's review of social conditions in the twenties and thirties reported that the London survey found

that in the east end of London, as in the London area as a whole, poverty was still rife amongst the elderly. As the new survey observed, the pension for a single person was in itself insufficient to place them above the poverty line if they were living alone. The London survey found that in many cases the poverty of the elderly was associated with bad housing conditions. For many the Poor Law Institution with its stigma as the 'workhouse' was the final destination when incapacity and lack of support from relatives prevented them from continuing on their own.³⁷

The depression years undoubtedly compounded the economic difficulties associated with old age.

During the Great Depression, or the "Dirty Thirties" as they have become known in Canada, age, sickness and fecundity "were the hallmarks of hopelessness."³⁸ Between 1933 and 1936 about 12 per cent of the Canadian population received emergency relief, while another 5 per cent were dependent upon existing programs such as charitable aid, mother's allowances and old age pensions. In the worst year of the Depression about 20 per cent of the total population were public dependents.³⁹ The non-contributory, means-tested old age security (OAS) pension, introduced in 1927 for those over the age of 70, was \$20 a month.

While limited statistical information prevents a detailed analysis of the elderly's economic position during the depression years the elderly did speak and write of their circumstances. One woman from Calgary wrote to the Prime Minister of Canada, R. B. Bennett, in 1935, saying, "do please raise the Old Age Pension to at least thirty dollars per month. So many of your old friends...have really not enough to exist on."⁴⁰ A couple from Quebec would pleaded

I am a Poor Woman 70 years old and I have a sick husband and he is 71 and not able to work and we have no one to keep us... Please send us a little money to get some coal and flour for one Winter.⁴¹

A woman in Saskatchewan wrote that "my husband was 64 May 22nd last I was 64 Nov. 5th I year older than you are worked hard all our lives. And surely a little comfort should be coming to us now."⁴² When the elderly did break their collective silence they revealed the terrible tragedy inflicted upon them. The Great Depression throughout the major industrialized countries not only created social chaos and human suffering, but also destroyed people's ability to save for retirement during their prime working years.

The end of World War II signalled an unparalleled period of prolonged economic expansion and prosperity in capitalist nations. However, "sheltering behind the myths of expansion and affluence", de Beauvoir observed, society "treats the old as outcasts."⁴³ In the immediate aftermath of World War II nearly 38 per cent of the elderly in Britain were in receipt of supplementary benefits. According to Rowntree's 1950 study, old age accounted for nearly 70 per cent of all people living in poverty.⁴⁴ By 1959 according to Titmuss, "it is possible to see two nations in old age".⁴⁵ In the heady post-war period between 1951 and 1965, according to the Economic Council of Canada, "the young, benefited more from economic growth...than the middle-aged and elderly."⁴⁶ In 1951, 84 per cent and in 1961, 75 per cent of the elderly had an income of

less than \$2,000 a year. In 1961 the medium income of the elderly was \$960, resulting in nearly 54 per cent of the aged being in receipt of an annual income of less than \$1,000 a year.⁴⁷

The 1960s heralded the rediscovery of poverty. The poor, including the elderly, became a major social policy concern for the liberal welfare state. In Britain, Townsend and Abel-Smith established on the basis of their 1960 study that approximately 18 per cent of households and 14 per cent of all people were living below the defined "national assistance" level. Nearly 35 per cent were living in households primarily dependent on pensions and another 23 per cent in households dependent on other state benefits. Townsend's massive 1968 survey of poverty in Britain (published ten years later) indicated, depending upon the criteria, that 34 to 63 per cent of all the elderly continued to live in poverty.⁴⁸ A 1960 U.S. Senate report stated that "at least one-half of the aged... cannot afford today decent housing, proper nutrition, adequate medical care... or necessary recreation."⁴⁹ The elderly were clearly identified as being among "the invisible poor".⁵⁰ Subsequently the elderly became a prime "target group" for the Johnson administration's "war on poverty". The 1966 report of the Senate Committee on Aging in Canada noted that "without question the most serious problem encountered... was the degree and extent of poverty which exists among older people."⁵¹ A study of low incomes in Canada confirmed that in 1969 in excess of 50 per cent of all unattached individuals and 30 per cent of all families, or nearly 40 per cent of all those over the age of 65, were below Statistics Canada's low income (poverty) cut-offs.⁵² The economic position of the elderly may represent one of great social policy failures of the capitalist welfare state in the post-war period.

2.3 Public Policy Toward the Elderly: Ideological Principles

The primary characteristic associated with a significant proportion of the elderly is poverty. This situation is explained by the inadequacies of income security arrangements and a dominant ideology which has guided the formulation of public policy towards the aged. It is the interplay between ideology and institutional arrangements which explains the historical and contemporary immiseration of the elderly.

The subsistence principle ("social minimum" or "poverty line") and individual "thrift" or "savings" have been central, if not always explicit, ideological principles which have guided the development of state income security arrangements for the elderly. Both notions are British in origin and have affected social security philosophy and institutional arrangements in Canada and, to a lesser extent, the United States. The emphasis here is on Canada since this aspect of social security history is less well known and documented as compared with Britain and the United States.⁵³

2.3.1 The Subsistence Principle. The subsistence principle was first enunciated in the British Poor Laws and subsequently incorporated into the 1942 Beveridge Report. Beveridge was quite clear that the responsibility of the welfare state was limited to the provision of a social minimum, while reaffirming the responsibility of the individual to engage in thrifty behaviour. He emphasized that "provision by compulsory insurance of a flat-rate...benefit up to subsistence level leaves untouched the freedom and responsibility of the individual citizen in making supplementary provision for himself above that level."⁵⁴ "Nothing materially below the scales of benefit", he wrote, "can be justified on scientific grounds as adequate for human subsistence."⁵⁵ The "scientific grounds" used to justify the subsistence principle were Rowntree's 1937 minimum family budget and dietary requirements.⁵⁶ Those individuals who wished to rise above the social minimum would be required to undertake individual initiative and engage in thrifty savings behaviour.

From its inception, the state social security system in Canada was viewed as being only one of a number of sources of retirement income and was to provide only a minimum subsistence level, or floor benefit. Marsh stated that "the basic rate should be an amount sufficient for minimum maintenance... the rates which suggest themselves...[are] the minimum assistance standards."⁵⁷ The 1966 Senate Special Committee on Aging reiterated that what was necessary "is a floor of income security to maintain self-reliance."⁵⁸ When the Canada/Quebec Pension Plans became effective on January 1, 1966 the federal Minister of Health and Welfare, Judy LaMarsh, said that "the Canada Pension Plan... is designed to make available to all Canadians a satisfactory minimum standard of pensions... the proper role of government is to provide a floor."⁵⁹ Former federal Minister of Health and Welfare, Marc Lalonde, asserted in 1973 that the universal old age security (OAS) pension and the earnings-related Canada/Quebec Pension Plans "were geared to ensure adequacy," while occupational pension plans were "to provide whatever supplementary margin of comfort was desired."⁶⁰ In practice, however, "adequacy" is equated to the "poverty line" cut-offs as defined by Statistics Canada.

2.3.2 Individual Savings. The view that individuals should provide for their old age through personal savings has played an important role in the development of welfare policies in capitalist nations in general, and the Anglo-American democracies in particular.⁶¹ This dominant ideological outlook has influenced British and Canadian, and to a lesser extent American, social security arrangements.

The development of pension arrangements was marked by the Victorian expectation of saving, thrift and individual responsibility. To engage in such behaviour was viewed as a prerequisite for workers becoming part of the "respectable working-class". The friendly societies of nineteenth century Britain which provided sickness, unemployment, death and

superannuation benefits was "traditionally the badge of the artisan".⁶² For skilled workers, and a scattering of lower middle-class occupations, the friendly society movement "made its impact upon the developing conception of independence and respectability."⁶³ But few workers saved for retirement because of limited financial resources, and the concept of retirement had not yet emerged. A friendly society member worked until he died.⁶⁴ In the Calvinist tradition, saving and thrift were considered virtuous behaviour and a sign of success. The inability to save was viewed as a sign of personal failure, entitling one only to a subsistence existence provided by the state. Thrifty behaviour and saving were equated with social "respectability" and served a social control function by promoting desired social behaviour.

The 1889 Royal Commission on the Relations Between Capital and Labour in Canada provides considerable evidence that certain sections of the working class had some opportunity for saving and homeownership. It is equally evident, however, that workers did not engage in saving for retirement as such. One rare insight into aging and saving behaviour is found in an exchange between Alex McKay, Hamilton M.P. and the Chairman of the Royal Commission, Mr. Freed.

Q: Do you know of many working people in Hamilton who are able to accumulate means for their support in old age?

A: I know of instances of people who have worked, and are now living comfortably without working.

Q: [Are] Any of these common labourers?

A: I think among the common labourers it is rare, though there are exceptional cases where men seem to accumulate property.⁶⁵

Property accumulation, and the attendant "property mobility", were part of the working class experience in the last half of the nineteenth century in North America. ⁶⁶ More speculatively, it might be suggested that there was a substitution effect between retirement savings and investment in property and home ownership. Investment in property was tangible, while

saving for retirement required a long-time horizon based on a concept of retirement which had not yet evolved for the majority of workers.

The social pressures for individual saving for retirement were so great that, at the turn of the century, Canadian proponents of a non-contributory state pension were told that "a pension paid by the state would reward shiftlessness and profligacy" and "would thereby discourage thrift and initiative."⁶⁷ Subsequently, the Canadian Annuities Act 1908, introducing the voluntary purchase of pensions from the government, was implemented as "a means of promoting thrift rather than... a type of social legislation or state aid."⁶⁸

Associated with the development and expansion of the welfare state in advanced industrialized countries in the post-war period was a transformation in the conception of social welfare and the role of the state. The "residual" concept, based on the "protestant ethic", determined social policy up to the 1940s and placed reliance on private relief agencies and limited government intervention. In the aftermath of the Great Depression and World War II, this gave way to the "institutional" concept which inaugurated active state intervention to protect the individual against the exigencies of unemployment, sickness, death, disability and old age as a universal right of citizenship.⁶⁹

Despite the major transformation in the role of the state and social welfare policy, the legacy of the "residual" approach to income security arrangements for the elderly has continued to influence Canadian public policy to the present day. The Carter Commission on Tax Reform in 1966 stated that

it seems to be generally agreed that individuals should set aside a portion of their income in the working years to ensure an adequate command over goods and services in their retirement years. Such private provisions for retirement are thought to foster self-reliance and reduce the need for the state to provide relief.⁷⁰

In 1973 the federal government concluded a major income security review by stating that "we believe...Canadians hold the value of independence or self-dependence. They expect to meet their own needs through their own efforts, and they expect others to do their best to do the same."⁷¹ The historical legacy and ideology associated with the market ethos has served to legitimize limited government intervention in the social security field to provide only a minimum subsistence level of income replacement for the elderly. A representative of the Canadian private pension industry recently justified this situation by saying that, "if we wipe out private pensions, we say goodbye to the traditional values of thrift and self-denial."⁷²

The role of private saving by individuals to provide economic security against the universal risks of old age, disability, illness and so on is extremely limited. According to Statistics Canada, a worker at the average industrial wage, with two children, will only save 4.6 per cent of his net income for "security" (pensions, disability, life insurance, and so forth). Kreps summarized the role of individual savings for retirement income by stating that

the role...played by private savings would appear to be a very limited one for families whose incomes during work life fall below the median...Even when the marginal propensity to save is quite high...savings adequate to maintain the targeted level of consumption are not forthcoming.⁷³

Only a collective pooling arrangement such as a social security system can effectively deal with this social reality.

But an over emphasis on the role of ideology - the subsistence principle and individual thrift - to explain the welfare state's limited income maintenance measures to improve the economic position of the elderly tends to obscure a much more fundamental set of structural and power relationships which are identified and elaborated upon in Chapters 6 to 9. Subsistence level retirement income from the state social security system effectively forces people to save for retirement, by relying on the private

pension system, or to live in poverty. Controlling a portion of the labour force's discretionary savings for its own purposes ensures that the private pension industry will remain viable. The corresponding underdevelopment of the state pension system not only ensures the existence of the private pension industry, but the continued immiseration of the elderly.

2.4 Level of Retirement Income: Adequacy and Poverty

To put the economic position of the elderly, the underdevelopment of the state social security system and the limitations of the private pension system into analytical perspective requires that the concepts of adequate retirement income and poverty be identified and defined.

2.4.1 Criteria for Adequate Retirement Income. Four criteria have been developed to assess the adequacy of retirement income:⁷⁴

1. a level of retirement income which allows a person to subsist by providing no more than the barest necessities of life;
2. a level of income which keeps the elderly above the poverty line;
3. provision for a level of income which permits an individual to live at the same level as other pensioners; and
4. a level of income in the retirement period which allows a person to maintain the standard of living to which they have become accustomed prior to retirement.

Adequate retirement income is usually defined in terms of total income from all sources. Income from all sources, however, is ordinarily restricted to that income received from the state and occupational pension plans. Economists and social welfare administrators have tended to limit the definition of total income to these two sources rather than using the broader

net wealth (or asset) concept, including services in-kind, because of conceptual, distributional and measurement problems.

In recent years a consensus has emerged among economists, gerontologists, social security and pension plan administrators that the appropriate level of retirement income is that which maintains a person's pre-retirement standard of living. This is referred to as the "continuity of income" approach. Discussion of this question has centered around the level of pre-retirement income that is needed to prevent a sharp decline in living standards during retirement and the proportion of income that should come from public, private and individual sources.

Schulz has noted that "the trend seems to be toward developing public and private pension systems which will permit the retired population to... maintain a level of living which approximates that which they enjoyed during their working years."⁷⁵ Hall in his famous report on the Canadian railways' pension plans concluded that "a desirable principle would seem to be that the combined pension should enable the retired worker to maintain his living standard."⁷⁶ Tilove has argued that "it seems appropriate to consider continuance of [full] net income as a reasonable"⁷⁷ level for retirement income. A Toronto consulting actuary has defined the minimum retirement income standard as "that income which permits maintenance of an equivalent standard of living after retirement."⁷⁸ It is generally agreed that in North America and Western Europe a one-earner couple at the average industrial wage (AIW or APW in Europe) requires in the order of 70 per cent of the last full-time salary to maintain their pre-retirement standard of living.

The "full maintenance" or "continuity of living standard" approach to defining an adequate retirement income is in reality based on a "net income" approach; that is, net income in the post-retirement period must be compared with net income in the pre-retirement period. Altered

expenditure patterns and a lower rate of taxation will result in a couple or individual requiring less than the pre-retirement gross income. The relationship between the retirement income equivalent to pre-retirement income is presented in Table 2.1. This evidence suggests that the average production worker (APW) must receive a total income from all sources in retirement equivalent to 70 per cent of gross pre-retirement income in order to maintain his standard of living.

TABLE 2.1

RETIREMENT INCOME EQUIVALENT TO
PRERETIREMENT INCOME FOR A
ONE EARNER COUPLE,
ONTARIO, 1978

| <u>Pre-Retirement Income (Final Salary)</u> | <u>Per Cent Required on Retirement</u> |
|---|--|
| \$10,000 | 73.1 |
| 20,000 | 61.2 |
| 30,000 | 52.0 |
| 40,000 | 48.3 |

Source: Roy Chittick, Vice-President, T-A Associates,
Pension Adequacy. A Summary of a workshop
presentation to the Canadian Pension Conference
Annual Meeting, Toronto, April 30th and May 1,
1979, p.2.

2.4.2 Poverty-Line Criteria for Retirement Income. To assess the economic status of the elderly requires a standard of income adequacy.⁷⁹ Two such criteria exist. The total net income replacement standard was outlined above. The second criterion is the low income cut-off approach ("poverty line" or "social minimum") developed by various government agencies such as Statistics Canada, the Economic Council of Canada, the Senate Committee on Poverty and the Metro-Toronto Social Planning Council. The "poverty line" concept measures both absolute and relative deprivation, or what Rowntree called "primary" and "secondary" poverty.

"The exercise of drawing statistical poverty lines," the Economic Council of Canada has said, "while bound to be somewhat arbitrary, is necessary for good social planning."⁸⁰ Presently in Canada there are four poverty lines which have been constructed. The most commonly used poverty line is that which has been established by Statistics Canada (an agency similar to the Central Statistical Office in the U.K.). This is the lowest poverty line cut-off used by social planners. The Statistics Canada "poverty line" or low income cut-offs were originally based on the assumption that "expenditures of 70 per cent or more of income on food, clothing and shelter by an individual or family indicates straitened circumstances."⁸¹ The data used to determine the low income cut-offs came from the 1959 Family Expenditure Survey. The low income limits were set for 1961 and in subsequent years adjusted for increases in the consumer price index (CPI). The low income cut-offs have since been recalculated based on the 1969 Family Expenditure Survey and are annually updated by the consumer price index. Statistics Canada's low income cut-offs are now set at income levels where family units on average spend 62 per cent or more of their income on food, shelter and clothing. The levels are determined for families and urban centers of different sizes. In 1978, the year which will be used here for comparative purposes, the poverty line was set at \$7,020 for an elderly couple and \$4,844 for an individual.

In the United States a poverty line and a Bureau of Labour Statistics intermediate family budget have been established.⁸² In Britain the poverty level is generally defined as the supplementary benefits level.⁸³ It warrants repeating that all these poverty line measures are set at the minimum subsistence level.

2.5 Welfare State Social Security Expenditures on the Elderly

The current retirement income system is not generating an adequate level of total income for the elderly. This is a result of the relative underdevelopment of the state social security system and the limitations of the private pension system. A complex series of interactive factors have accounted historically for the expansion of welfare state expenditures. The key variables identified in the technical literature causally explaining the level of welfare state expenditures, in order of descending importance, include the age structure of the population and the proportion of elderly, the level and rate of economic development, the length of operation of the social security system, the level of per capita income, the level of unionization, the official ideology, the strength of the socialist movement, and the type of economic system.⁸⁴ The historical interaction of these factors has resulted in the considerable variation found in national social security systems.

Old age pensions are the welfare state's largest social security expenditure.⁸⁵ State expenditures on retirement payments (including invalidity and survivors' benefits) as a proportion of total social security expenditures and as a percentage of gross domestic product (GNP) are presented in Table 2.2. In most industrialized countries state pension benefits account for 50 to 70 per cent of all social security expenditures and 10 to 17 per cent of GNP. Caution must be exercised in interpreting the data to ensure that they are on a comparable basis since retirement payments as a proportion of total social security expenditures are a function of the number of recipients, the level of benefits, the maturity of the pension system and the type of funding.⁸⁶

In general there is a close relationship between the level of state old age pension benefits and the proportion of the elderly in the population.⁸⁷ This relationship is outlined in Table 2.3 for selected

TABLE 2.2

INTERNATIONAL COMPARISON
OF STATE
OLD AGE, INVALIDITY AND SURVIVORS
PENSIONS, 1977

| Country | Pension Benefits ^{1,2} | Total Social Security Expenditures ¹ | Gross Domestic Product ¹ | Pensions as a % of All Social Security Expenditures | Pension Benefits as a % of Gross Domestic Product ² |
|-------------|------------------------------------|---|---|---|--|
| Sweden | 58,029 | 104,368 | 350,921 | 55.6 | 16.5% |
| Italy | 24,578,704 | 35,416,000 | 172,987,900 | 69.4 | 14.2 |
| Holland | 35,210 | 69,862 | 262,410 | 50.4 | 13.4 |
| Finland | 15,895 | 23,759 | 127,065 | 66.9 | 12.5 |
| U.K. | 15,393 | 20,095 | 123,081 | 76.6 | 12.5 |
| W. Germany | 140,707 | 268,525 | 1,197,000 | 52.4 | 11.8 |
| Denmark | 32,149 | 64,948 | 278,325 | 49.5 | 11.6 |
| Austria | 91,051 | 159,180 | 792,500 | 57.2 | 11.5 |
| Switzerland | 15,599 | 22,157 | 145,790 | 70.4 | 10.7 |
| France | 183,682 | 421,289 | 1,875,200 | 43.6 | 9.8 |
| U.S.A. | 162,095 | 244,488 | 1,889,157 | 66.3 | 8.6 |
| Belgium | 218,614 | 672,659 | 2,838,200 | 32.5 | 7.7 |
| Canada | 7,909 | 27,368 | 193,085 | 28.9 | 4.1 |

Notes: 1. In millions of national currency units.
2. Old age, invalidity and survivors pensions.

Source: Calculated from the International Labour Organization, The Cost of Social Security, 1975-1977 (Geneva: ILO, 1981), pp. 95-106; pp. 70-77; pp. 110-115.

TABLE 2.3
RELATIONSHIP¹ BETWEEN
STATE OLD AGE BENEFITS² AND AGE COMPOSITION,
SELECTED COUNTRIES, 1975-1977

| Country | Proportion of Population Age 65 and Over, 1975 | State Old Age Pension Benefits as a Proportion of GDP, 1977 |
|--------------|---|---|
| Austria | 15.1% | 11.5% |
| Sweden | 14.9 | 16.5 |
| West Germany | 14.3 | 11.8 |
| Belgium | 14.2 | 7.7 |
| U.K. | 13.6 | 12.5 |
| France | 13.3 | 9.8 |
| Netherlands | 10.7 | 13.4 |
| U.S. | 10.4 | 8.6 |
| Canada | 8.7 | 4.1 |

Note: 1. The relationship between state expenditures on old age pensions and the proportion of elderly in the population has a correlation coefficient (r) of 0.6, suggesting a moderate, but not necessarily causal, relationship.

2. Including old age, death and survivor's benefits.

Sources: Harry Weitz, The Foreign Experience with Income Maintenance for the Elderly (Hull: Canadian Government Publishing Center, 1979), Table 2-1, p.6 and the International Labour Organization, The Cost of Social Security, 1975-1977 (Geneva: ILO, 1981), pp. 70-77.

countries. The technical literature on the subject indicates that there is a more robust statistical correlation based on time-series data⁸⁸ than is apparent using the cross-sectional information presented in Table 2.3. The latter is reported for the purpose of illustration.

To assess the adequacy of retirement income for the current elderly requires that the level of total income generated from the state and private pension systems be reviewed. By ascertaining the level of income generated from each of these sources, it becomes possible to determine the income replacement rate in the retirement period and to compare it with the adequacy standard. The policy goal of most state social security systems is to provide an income replacement rate of 40 to 50 per cent of pre-retirement income.⁸⁹ The current ILO Convention calls for a 45 per cent income replacement rate under state pension plans.⁹⁰

Table 2.4 compares the income replacement rate provided for under state social security pension arrangements in selected Western

TABLE 2.4
INCOME REPLACEMENT RATES
FOR
SOCIAL SECURITY OLD AGE RETIREMENT BENEFITS,
SELECTED COUNTRIES, 1975

| Country ¹ | Replacement Ratio As a Percentage of Final Year's Earnings ² | |
|----------------------|---|--------|
| | Individual | Couple |
| 1. Italy | 67 | 67 |
| 2. Sweden | 59 | 76 |
| 3. Austria | 54 | 54 |
| 4. West Germany | 50 | 50 |
| 5. France | 46 | 65 |
| 6. Norway | 41 | 55 |
| 7. Canada | 39 | 57 |
| 8. Netherlands | 38 | 54 |
| 9. United States | 38 | 57 |
| 10. Switzerland | 36 | 53 |
| 11. Denmark | 29 | 43 |
| 12. United Kingdom | 26 | 39 |

Notes: 1. Countries are arranged in descending order based on the replacement rate for a single worker.
2. For a male at the average industrial wage in manufacturing.

Source: Retabulated from Leif Haanes-Olsen, "Earnings - Replacement Rate of Old-Age Benefits, 1965-75, Selected Countries", U.S. Social Security Bulletin, Vol. 41 (January 1978), p.4.

European countries and North America. By international standards, the benefit levels currently provided by the American, British and Canadian public retirement systems are quite low. State retirement benefits for individuals in Britain and the U.S. rank in the bottom quartile of the countries surveyed, while Canada is near the median.⁹¹ For a couple, the United States and Canada provide median benefits, while those in the U.K. rank last.

What is of significance is the total combined replacement rate generated from the state and private pension systems. Table 2.5 identifies the total combined income replacement rate for selected countries where complete information was available. A number of points should be noted. First, and most important, retirement income flowing from the public pension system accounts for 60 to 90 per cent of the total income

TABLE 2.5
TOTAL COMBINED INCOME REPLACEMENT RATES
UNDER
STATE AND PRIVATE PENSION ARRANGEMENTS,¹
SELECTED COUNTRIES, 1975

| Country | Individual | | | One Earner Couple | | |
|----------------------|------------------------------|-------------------------------|-----------------|------------------------------|-------------------------------|-----------------|
| | Social Security ² | Private Pensions ³ | Total | Social Security ² | Private Pensions ³ | Total |
| Fed. Rep. of Germany | 50% | | 62%-72% | 50% | 12%-22% | 62%-72% |
| France | 46 | 8 ⁴ | 54 | 65 | 8 ⁴ | 73 |
| Netherlands | 38 | 7-11 | 45-49 | 54 | 7-11 | 61-65 |
| Sweden | 59 | 6 ⁴ | 65 | 76 | 6 ⁴ | 82 |
| U.K. | 26 | 23 | 49 | 39 | 23 | 62 |
| Canada ⁵ | 38 | 32 | 70 ⁶ | 51 | 19 | 70 ⁶ |
| U.S. ⁵ | 38 | 32 | 70 ⁶ | 57 | 13 | 70 ⁶ |

- Notes: 1. For a male worker in manufacturing at the average industrial wage.
2. Including flat-rate benefit and earnings-related pension as of 1975, where applicable.
3. For those in the countries surveyed, private pension plan coverage ranged from 45-80 per cent of the paid labour force. However, because of the limitations of the private pension system few people in fact will receive a pension benefit.
4. At maturity the income replacement rate will double.
5. Included for comparative purposes.
6. Targeted, but not necessarily received, level of retirement income.

Source: Leif Haanes-Olsen, "Earnings-Replacement Rate of Old-Age Benefits, 1965-75, Selected Countries", U.S. Social Security Bulletin, Vol. 41 (January 1978), Table 1, p.4, Table 2, p.5 and p. 14.

replacement ratio in the case of individuals and 65 to 95 per cent for retired couples. It is the state pension system which is the primary source of pension income for the elderly; less than 35 per cent of all people in these countries receive income from an occupational pension plan. This situation is a result of the limitations of the private pension system, particularly the lack of universal coverage, poor vesting (preservation) standards and portability (transferrability) arrangements which are dealt with in Chapter 4. The income replacement rate under the state pension therefore constitutes the major source of retirement income for the elderly.

A second consideration is the difference in the income replacement levels between Western European and North American countries. While social security retirement income accounts for 70 to 90 per cent of the total income replacement ratio in Western Europe for individuals and couples, in Britain and North America only 50 to 80 per cent is provided. The Anglo-American countries tend to record below average levels of retirement income by international standards.⁹²

A third point to be made is that the total income replacement ratio for individuals is in most instances below the 70 per cent income adequacy level cited earlier, while the situation for an elderly couple more nearly conforms to this adequacy standard. This situation particularly affects elderly single women. The relative underdevelopment of the state social security retirement system and the limitations of the private pension system have resulted in the immiseration of the current elderly.

2.6 The Current Position of the Elderly

Poverty among the elderly is a well documented fact confirmed by any number of government and scholarly studies.⁹³ Here two separate but interrelated issues are analyzed: first, the extent of poverty among the current elderly; and second, the sources of retirement income.

2.6.1 Poverty and the Elderly. Poverty is both a relative and absolute condition. The current economic situation of the elderly must be compared with that of the active labour force in order to establish their relative position in society and assessed against a somewhat arbitrary criterion, such as the poverty line standard, to determine absolute deprivation.

Poverty increases with age. The elderly's income is substantially below the income of others in society.⁹⁴ In Canada, for example, the median income of the elderly was only 45 per cent of that for all Canadians in 1979, despite the fact that the median income of the elderly has increased over the past decade.⁹⁵ The information presented in Table 2.6 suggests that over the past decade the elderly in Canada have actually experienced a deterioration in their standard of living relative to the actively employed labour force. Between 1970 and 1979 the income of pensioners as a percentage of average employee income declined from 51 to 45 per cent.

TABLE 2.6
COMPARISON OF
AVERAGE INCOME OF PENSIONERS AND EMPLOYEES
BASED ON REVENUE CANADA TAX RETURNS,¹
1970 - 1979

| Year | Average Income | | Pensioners' Income as a % of Average Income of Employees |
|------|----------------|-----------|--|
| | Pensioners | Employees | |
| 1970 | \$ 2,929 | \$ 5,018 | 51 |
| 1971 | 3,042 | 6,089 | 50 |
| 1972 | 2,875 | 6,791 | 42 |
| 1973 | 3,188 | 7,477 | 43 |
| 1974 | 3,556 | 8,614 | 41 |
| 1975 | 4,025 | 9,891 | 41 |
| 1976 | 4,517 | 11,199 | 40 |
| 1977 | 5,000 | 12,166 | 41 |
| 1978 | 5,591 | 12,963 | 43 |
| 1979 | 6,336 | 14,037 | 45 |

Note: 1. For all returns including taxable and non-taxable returns.

Source: Derived from Revenue Canada, Taxation Statistics - Analyzing the Returns of Individuals for the 1979 Taxation Year and Miscellaneous Statistics (Ottawa: Canadian Government Publishing Centre, 1981), Summary Table 3, p.31.

The elderly experience a sharp decline in their economic position relative to the overall population upon retirement.⁹⁶ This drop in post-retirement income is, interestingly, most severe for middle-income earners. According to the Task Force on Retirement Income Policy, "between one-third and one-half of those now of working age and with incomes in the middle ranges are likely to encounter significant reductions in their living standards in retirement."⁹⁷ According to Statistics Canada, in 1978, 43 per cent of all the elderly were below the poverty line cut-offs,⁹⁸ and nearly 55 per cent of the elderly were in receipt of the full or partial income-tested Guaranteed Income Supplement (GIS)⁹⁹ (similar to the supplementary benefit in Britain). The extent of poverty among the aged has received considerable attention in the United States.¹⁰⁰ The conventional wisdom promoted by the liberal gerontological literature in the United States suggests that the proportion of people age 65 and over living in poverty has declined from 35 per cent in 1959 to 14 per cent in 1977.¹⁰¹

The significant difference in the extent of poverty reported among the elderly in Canada and the United States is of some interest and must be analyzed. In Canada 43 per cent of all the elderly are below the "poverty line", as compared to only 14 per cent in the United States. This difference, as shall be explained, is more apparent than real. In the United States there are in reality two "poverty lines". What is of importance is the absolute levels at which these two "poverty lines" are set. The "official" poverty line in the U.S. in 1977 was set at \$2,917 for non-farm unattached individuals and \$3,665 for non-farm couples. Since the 1971 White House Conference on Aging, however, the Bureau of Labour Statistics (BLS) intermediate retired couples budget has been endorsed as the appropriate poverty line cut-off standard; for unattached individuals the standard is 75 per cent of the couples budget.¹⁰² In 1978 the BLS intermediate budget

for a couple was \$7,846 and for an individual \$5,884,¹⁰³ or nearly double the "official" poverty line. What should be noted is that the 1978 U.S. BLS intermediate retired couples budget nearly corresponds to the 1978 Statistics Canada poverty line of \$7,020 for an elderly couple and \$4,844 for an unattached individual. Therefore, in order to assess the extent of poverty among the elderly in the U.S., and to compare it with Canada, requires a realistic and comparable standard of adequacy. This suggests that the relevant poverty line criteria are the U.S. BLS intermediate budget and the Statistics Canada low income cut-off.

Table 2.7 reports the extent of poverty among the elderly in the U.S. and Canada based on the comparable poverty line standards. Placing U.S. and Canadian data on a roughly comparable basis indicates that nearly 61 per cent of all the elderly in the United States live in poverty as compared with 43 per cent in Canada. The proportion of poor-aged in the United States is significantly greater than recognized by those relying on the "official" poverty line.¹⁰⁴

TABLE 2.7
COMPARISON OF THOSE AGE 65 AND OVER
IN POVERTY, U.S. AND CANADA, 1978

| <u>Country</u> | <u>Unattached Individuals</u> | <u>Couples</u> | <u>Total</u> |
|--|-------------------------------|----------------|--------------|
| Canada ¹ | 60.7% | 27.4% | 43.3% |
| U.S. | 75.0 | 38.0 | 60.5 |
| Statistics Canada Poverty Line ¹ | \$4,844 | \$7,020 | |
| BLS Intermediate Budget | \$5,884 | \$7,846 | |

Note: 1. For cities with 500,000 or more residents. Nearly 80 per cent of Canada's population is concentrated in 8 cities.

Sources: Calculated from Statistics Canada, Income Distribution by Size in Canada, 1978 (Ottawa: Minister of Supply and Services, 1980), Table 29, p.61 and Elizabeth L. Meier and Cynthia C. Dittmar, Income of the Retired: Levels and Sources. A Working Paper prepared for the President's Commission on Pension Policy (Washington, D.C.: PCPP, October 1980), Table 27, pp. 79-81.

"The majority" of the elderly in Britain, according to Age Concern, "are living below, on, or just over the poverty level."¹⁰⁵ The 1975 Family Expenditure Survey (FES) indicated that 37 to 78 per cent of the elderly were living in, or, on the margin of poverty. This corresponds to Townsend's 1968 data.¹⁰⁶ In addition, it is estimated that another 10 to 50 per cent of pensioners live in households which have an income below the supplementary level because they are not claiming benefits.¹⁰⁷ As Townsend put it, "the problem of poverty in old age is massive and [its] continuing cannot be doubted."¹⁰⁸

The data in Table 2.8 indicates that on average 54 per cent of the elderly in the advanced capitalist countries of Canada, Britain and the United States currently live in poverty. The elderly's poverty line existence is nothing new. It is a perpetuation of their historical position in society.

TABLE 2.8
COMPARISON OF THE PROPORTION
OF ELDERLY LIVING IN POVERTY,
U.S., CANADA, AND BRITAIN, 1975 AND 1978

| <u>Country</u> | <u>Percentage of Elderly Living in Poverty</u> |
|----------------|--|
| U.S. | 60.5 ¹ |
| Canada | 43.5 ² |
| Britain | 36.6 - 77.8 ³ |

- Notes: 1. Based on BLS intermediate budget for 1978.
2. Statistics Canada low income cut-off for 1978.
3. The lower range figure represents the proportion of elderly below the 1975 supplementary benefit level. The upper range figure is calculated on the basis of Peter Townsend's "state's standard of poverty" where the net disposable income of the income unit is below 140 per cent of the supplementary benefits.

Sources: Statistics Canada, Income Distribution by Size in Canada, 1978 (Ottawa: Minister of Supply and Services, 1980), Table 29, p.61; Elizabeth L. Meier and Cynthia C. Dittmar, Income of the Retired: Levels and Sources. A Working Paper prepared for the President's Commission on Pension Policy (Washington, D.C.: PCPP, 1980), Table 27, pp. 79-81; Age Concern England, Profiles of the Elderly, Vol. 1 (Surrey: Age Concern England, 1977), Table 3, p. 21 and Peter Townsend, Poverty in the United Kingdom: A Survey of Household Resources and Standard of Living (Harmondsworth: Penguin Books, 1979), note, p. 798.

TABLE 2.9
LONGITUDINAL COMPARISON
OF THE PERCENTAGE
OF ELDERLY
LIVING IN POVERTY,
BRITAIN, CANADA, AND U.S.,
1850 - 1978

| Country | 1850s | 1890- 1910 | 1920s | 1930s | 1945- 1950 | 1961 | 1969 | 1971 | 1975 | 1978 |
|---------|-----------------|--------------------|-------|-----------------|--------------------|-----------------|-------|------|-------|------|
| Britain | - | 15-39 ¹ | - | 15 ¹ | 38-70 ¹ | 35 ¹ | 34-63 | 44 | 37-78 | - |
| Canada | 30 ¹ | - | (2) | 20 ³ | - | 54 | 40 | - | - | 43 |
| U.S. | - | 35 | 40-67 | - | - | 50 | - | - | - | 61 |

Notes: 1. Proportion of those living in poverty or designated as poor.
2. According to the Economic Council of Canada the majority of all people were living below the poverty line.
3. Percentage of total population on emergency relief.

Sources: Note text sources.

From around 1850 to World War II, 15 to 67 per cent of the elderly lived in poverty; presently 37 to 78 per cent of the elderly live in poverty. Table 2.9 presents a longitudinal comparison of the proportion of elderly living in poverty in the three countries under study.

2.6.2 Sources of Retirement Income. It has been established that a significant proportion of the current elderly are poor. The reasons for this situation remain to be determined. An analysis of the composition of the elderly's income by source, as outlined in Table 2.10, allows us to determine the structural reasons for the elderly's economic position.

In the advanced industrialized countries of Britain, Canada, and the United States, retirement income from the state social security retirement system accounts for 40 to 52 per cent of all post-retirement income for the elderly. Of some interest is the fact that in a country such as Canada, the universal flat-rate old age pension (demogrant) accounts for 75 per cent of all pension income (from all sources).¹⁰⁹ In an almost exclusively earnings-related state pension system such as in the U.S., the high proportion of income generated is a reflection of the social security system's maturity. The flat-rate Old Age Security (OAS) pension in Canada, as a demogrant or universal benefit, results in a higher income replacement rate for those in the lower income categories and a lower ratio for those in the higher income groups. An earnings-related state pension system such as the Canada/Quebec Pension Plans or the U.S. social security retirement system yields a progressively higher replacement ratio for those in the upper income groups up to the earnings ceiling, and tails off thereafter.¹¹⁰

Counterposed to the income generated from the state pension system is the income provided by employer-sponsored occupational pension plans and annuities. The private pension system is responsible for generating only 12 to 15 per cent of all the income of the elderly. The low proportion of the elderly's retirement income attributable to occupational

TABLE 2.10
COMPARISON OF PERCENTAGE
COMPOSITION OF INCOME
OF THE ELDERLY,¹
BRITAIN, CANADA, AND U.S., 1975-1976

| Source of Income | Britain ² | Canada ² | U. S. ³ |
|---|----------------------|---------------------|----------------------|
| State social security | 44.7 | 52.2 | 40.0 |
| - Demogrant | (4) | 48.5 | (5) |
| - Earnings related pension | (4) | 3.7 | (5) |
| Employment earnings | 26.4 | 10.6 | 23.0 |
| Investment income | 15.8 | 21.4 | 18.0 |
| Employer-sponsored pensions, annuities, etc. | 12.0 | 12.3 | 15.0 |
| Other government transfers | 0.0 | 3.6 | 2.0 |
| Other income | 1.9 | 0.0 | 2.0 |
| Total Income | 100.0% | 100.0% | 100.0% |
| Average Income | \$4,411 ⁶ | \$4,810 | \$4,700 ⁷ |

Notes: 1. Unattached individuals and couples.

2. For 1975.

3. For 1976.

4. Prior to 1959 the old age pension was a flat-rate demogrant. It was only after that date that an earnings-related component was added. Official figures are not broken out. However, since the earnings-related plan will not reach maturity until the end of the century most of the benefits generated would have to come from the old-age demogrant.

5. The American OASDI from its inception had a minimum floor benefit, but was not intended as a demogrant. Since 1972 a new "special" minimum was added. Only 0.5 per cent of all beneficiaries receive the minimum benefit.

6. The average income for a head of a household over 65 in 1975 was \$1,969. This has been converted to Canadian dollars on the basis of the average annual exchange rate of £1 = \$2.24 Canadian.

7. Median income.

Sources: Statistics Canada, Special Tabulations from the Survey of Consumer Finances, 1975 cited in Health and Welfare Canada, Retirement Age (Ottawa: Health and Welfare Canada, revised April 1979), p.29. Age Concern England, Profiles of the Elderly, Vol. 1 (Surrey: Age Concern England, 1977), Table 2, p.19 based on the 1975 Department of Employment's annual Family Expenditure Survey. For the U.S.: Susan Grad and Karen Foster, "Income of the Population Aged 55 and Older, 1976", U.S. Social Security Bulletin, Vol. 42 (July 1979), pp. 16-32 and information supplied to the author by the U.S. Department of Health and Human Services, Office of Research and Statistics, May 3, 1982.

pension plans is a result of the limitations of the private pension system, particularly limited coverage, inadequate vesting (preservation) and portability (transferability) provisions and the lack of inflation-proofing. In these countries 67 to 74 per cent of the elderly received no income whatsoever from an employer-based occupational pension plan.¹¹¹ Between 1978-79, for those fortunate enough to be in receipt of occupational pension plan payments, the level of income was quite low: \$3,930 in Canada, \$3,585 in the U.S. and \$2,590 (£ 1,040) in Britain.¹¹² In the United States and Britain, income from the private pension system ranked last as a major source of retirement income for the elderly. The Canadian National Department of Health and Welfare concluded that "large proportions of the aged will continue to receive little or no private pension income in the future."¹¹³

The second most common source of income for the elderly is employment earnings. In these countries employment income accounts for 11 to 26 per cent of income in the retirement period. The variations between countries in the level of employment income received is a result of varying labour force participation rates, retirement tests for receipt of social security benefits, the tax-back (claw-back) rate for income earned in the retirement period, and the absolute level of retirement income necessitating continued employment. Employment income is directly related to socio-economic category,¹¹⁴ probably reflecting not only social background and job satisfaction, but the greater decline in post-retirement income for middle-income earners.

Investment income is the third most important source of retirement income for the elderly. The relatively high ranking of investment income as a source of retirement income is deceptive, however, since what is of importance is the distribution and level of investment income, reflecting the marginal propensity to save based on "life chances".

Receipt of investment income is directly related to socio-economic class.¹¹⁵ In Canada, despite the extremely high level of aggregate savings,¹¹⁶ 56 per cent of all individuals and 33 per cent of all couples in 1975 over the age of 65 received no investment income. Moreover, 77 per cent of those aged 65 and over who were in receipt of investment income received less than \$890 (£397) a year.¹¹⁷ In the United States in the mid-1970s only 36 per cent of the elderly reported personal savings as a source of retirement income, while another 19 per cent were in receipt of investment income.¹¹⁸ Median liquid assets held (savings, stocks, and bonds) were only \$2,794.¹¹⁹ The U.S. President's Commission on Pension Policy concluded simply that "it appears from the available data that 'savings' is not now a strong leg of the three-legged stool of retirement income."¹²⁰ Thus, the ideology of individual responsibility for thrift and saving for retirement income is at considerable variance with the social reality. Individual saving for retirement is insignificant.

While some commentators have suggested that the traditional purpose of "social security is to fulfil what is in effect a residual function...or at the most filling the gaps in the...private sector",¹²¹ the evidence presented here suggests the opposite conclusion. It is the state retirement income system which is the primary source of income maintenance for the elderly, with income from the private pension system and individual savings playing a residual role. This would suggest that in order to ameliorate the immiseration of the current and future elderly will require an increased level of public expenditure through an expanded state social security retirement system.

2.7 Implications of the Condition of the Elderly

The economic condition of the current elderly in Canada, Britain and the United States can be briefly summarized as follows. In industrialized societies the elderly have constituted a constant stratum of

the poor. The primary characteristic associated with old age is poverty. On average 54 per cent of all people over the age of 65 currently live in poverty in Canada, Britain and the U.S.; nearly two-thirds of unattached elderly persons live in poverty; more than a quarter of elderly family units live below the poverty line; a greater proportion of elderly women than men live in poverty. The proportion of elderly living in poverty increases with age. Over 50 per cent of people aged 65 and over in Canada receive full or partial income-tested Guaranteed Income Supplement (GIS) payments; nearly 30 of the elderly in the U.K. receive supplementary benefits; and 10 per cent of the elderly receive the Supplementary Security Income (SSI) benefit in the U.S., while another 10 per cent are eligible. Nearly half of all the income of elderly persons is generated from the state retirement income system.

A number of general implications can be drawn from the condition of the elderly. First, the economic position of the elderly compounds their isolation and segregation from the broader community¹²² as a result of the "culture of aging". The "culture of aging" in advanced industrialized countries has increasingly resulted in the situation where

the elderly have come to live increasingly in a separate world. Changes in housing patterns have acted to weaken ties across the generations. Changes in health standards have concentrated relatively more of the total burden of ill-health on the elderly. The elderly are separate too in their experience of mental as well as physical ill health. There are differences in living standards... Changes in society have accentuated the differences in outlook and aspiration which arise from the natural course of aging.¹²³

While a new and positive "culture of aging" emphasizing an independent lifestyle for the elderly has emerged in recent years, this is premised upon an adequate level of retirement income.

Second, the primary characteristic associated with a considerable proportion of the elderly is poverty. Old people experience a structural position which has resulted in their having "drifted to the very bottom of the

financial structure in society."¹²⁴ The distribution of income among the elderly, whether measured in terms of wages, assets, or retirement benefits, Talley and Burkhauser concluded, "has a greater variance than any other age group, indicating that differences in relative income position are greatest within the oldest group."¹²⁵ Under contemporary conditions this suggests that

the most fundamental... problems experienced by older people are linked to the maldistribution of power, income, and wealth in society, as well as to class, racial, and sexual stratifications that are perpetuated and legitimized through... market relations. These are not only reinforced, but [are] exacerbated, during old age.¹²⁶

While the new gerontological literature invokes Browning's optimistic passage - "Grow old along with me! The best is yet to be" - the current reality for the elderly in these advanced capitalist societies is more aptly captured by the pathos of the Beatles' lament: "Will you need me, will you feed me, when I'm 64".

Third, income from the state social security system is the primary source of income for the elderly. As a result of the limitations of the private pension system, income from occupational pension plans and limited personal savings play a residual role in the provision of retirement income.

Fourth, this suggests that the public pension system must be expanded in order to improve the economic position of the elderly. In 1981 the minimum guaranteed retirement income floor in Canada from the Old Age Security (OAS) pension and the Guaranteed Income Supplement (GIS) was below the poverty line for individuals, and only marginally above the low income cut-off for couples.¹²⁷

The elderly's need for economic security, necessitating an increased level of public expenditure, may however conflict in the future with the interests of the actively employed labour force and the corporate sector. This results from the work force's attempt to maintain their current consumption and the corporate sector's drive to reduce labour costs, by

minimizing payroll deductions and expenditures such as those associated with social security contributions. This is elaborated upon in the next chapter. Furthermore, as is argued in Chapter 6, the corporate sector's control over and acquisition of investment capital through the private pension system would be curtailed if the state pension system was expanded.

Fifth, adequate retirement income is a necessary, but not sufficient, condition to improve the quality of life for the elderly. While it remains true that the elderly have historically been collectively inarticulate, this passivity may be coming to an end because "the aging population, with its increasing political power will not tolerate indefinitely a life of poverty in retirement."¹²⁸ The Gray Panthers in the United States, and various active pensioner organizations in the U.K. and Canada, attest to the increased political activism among the elderly.

Sixth, as one recent study concluded, even if the poverty-line was raised to maintain the relationship between median incomes and the low income cut-offs "incomes would not rise fast enough to cause any substantial decline in the percentage of old people who are considered to be poor."¹²⁹ The continued poverty among the elderly is a major concern for public policy because "the number of people over 65 is growing and will continue to grow until well into the next century" creating "the prospect of major increases in the numbers of poverty-stricken old people."¹³⁰

In summary, the structurally determined economic interests of the increasing number of elderly for an adequate retirement income may conflict with those of the active labour force and the corporate sector. Furthermore, if there is no fundamental change in the economic position of the elderly in the future, more poor-aged will result because of the impending demographic transition.

CHAPTER 3

THE DEMOGRAPHIC TRANSITION AND THE ECONOMICS OF POPULATION AGING

"When examining a given country from the standpoint of political economy, we begin with its population...The sphere of economy with population...forms the basis and the object of the whole social process of production."

Karl Marx

3.1 Introduction

Demography is fundamental to understanding the material conditions of a society. Demography has played an important, and sometimes decisive, role in economic history.¹ Demography however has generally been ignored by contemporary Marxist political economy, despite Marx's earlier concern with the subject.² Political economy's circumvention of demography and its implications is peculiar for a tradition which bases itself on a materialist analysis of a concrete situation. Its traditional aversion to the study of demography can be traced and largely understood as a reaction to the determinism associated with the Malthusian "trap"³ and its more modern neo-Malthusian variants.⁴ Recognizing the critical importance of demography, however, is not the same thing as suggesting that it is mechanically determinant. While demographic projections and trends sometimes have a futuristic quality about them, it remains true as Sweezy reminds us that "if population has been important in the past, it will be no less so in the future."⁵

The population in advanced industrialized societies is getting older.⁶ The aging of the population in countries such as Canada, Britain and the United States will have profound ramifications with respect to the

economics of aging, pension arrangements, social policy, politics, and cultural attitudes towards the elderly.⁷ The proportion of the elderly in the population is of considerable significance. The increasing number and proportion of the elderly in society will require an increased level of public expenditure to support them. The importance of population aging, in conjunction with the economic position of the elderly outlined in the previous chapter, is that there will be a new and significantly larger generation of elderly poor in the future unless there is major reform of retirement income arrangements.

The aging of the population will have important repercussions on such macro-economic considerations as the type of funding and level of contributions necessary to finance the public pension system in the future. It will affect the level of taxation required of the actively employed labour force to support elderly dependents and the allocation and mix of social resources devoted to the aged. "If there is one source of welfare spending that is most powerful - a single proximate cause," Wilensky concluded in his exhaustive study of welfare state expenditures, "it is the proportion of old people in the population."⁸ The economics of an aging population may also generate an aged-based politics - that is, demographic politics⁹ - and a shift from the values of a youth oriented society to those of a "mature" society.¹⁰

3.2 Historical Background: Demography and Pension Programming

The demographic transition and the aging of populations is a necessary accompaniment of the modernization process (industrialization and urbanization) if society is to generate an economic surplus.¹¹ The first demographic transition associated with the industrial revolution saw the transition from a high birth/death rate to a low birth/death rate pattern. The long-term trends and fluctuations with respect to the interrelationship between birth (fertility), death (mortality), longevity, and

net immigration rates determine population growth, stability and age distribution. Declining birth rates combined with increased life expectancy in industrialized countries has meant that there has been a growth in both the number and the proportion of older people in the population. In the future there will be a relative decline in the labour force in relation to the older age cohort as a result of these trends.

The second and impending demographic transition is a matter of magnitude rather than of process. Demographic aging may be defined as

either the process, that is the increase in the proportion of elderly persons, or the results of the process, that is the existence of a large proportion of elderly persons. The threshold of aging, namely the level beyond which a population can be described as old, may be situated at 7 or 8 per cent of inhabitants aged 65 or older.¹²

It is a fact that since 1950 virtually all Western European countries, Canada and the United States have come to exceed this "threshold" and are referred to here as aging societies because of this trend towards population aging.¹³ Currently in North America and Western Europe, 10 to 15 per cent of the population is age 65 or over.¹⁴ All projections point to increasing proportions and numbers of older persons in the future.

North American demographic patterns have tended in the past to follow European trends with some time lag. After World War II, however, the demographic histories of the two continents markedly diverged.¹⁵ After World War II there was a "baby boom", followed by a "baby bust". While the "baby boom" in most Western European countries only lasted about five years, in North America it spanned the period from 1945 to 1960 and was accompanied by a doubling of the birth rate. The reasons for the difference between North American and European experience, as well as for the resumption of the long-term decline in birth rates, have been the subject of considerable scholarly speculation and controversy.¹⁶

The birth of the "baby boom" generation has had a considerable economic and cultural impact on North American and Western European

life. Some commentators have referred to the "baby boom" cohort as the "mega-generation", the "big generation" or simply the "tidal wave".¹⁷ Its impact has had far-reaching effects which have influenced all aspects of contemporary life. The "baby boom" generation has had a critical impact on the education and health-care systems, labour and housing markets, and student politics, as well as influencing tastes in music, hairstyles and dress.

The aging of the "baby boom" generation is as important as its birth. Compounding the sheer numbers, and concurrent with them, is the increasing tendency toward improved longevity and the continued decline in birth rates. As a result of the dramatic decline in population growth rates in advanced industrialized countries, which are now approaching the zero level, there has been a general aging of the population. As the "baby boom" generation moves through and become "baby boom oldies", their robust numbers, combined with increased longevity, will create a bulge in the older population which will peak in North America between the years 2011 and 2031 when they retire.

In pre-and-early industrialized societies, when the population was dominated by younger age groups, support of the elderly was primarily a family or individual responsibility. In advanced industrialized countries, as a result of a complex historical and institutional process, responsibility for the non-working or dependent elderly tends to fall on the state and the actively employed labour force. This raises the question of whether society or the employed population will be able, or willing, to support the increased number and proportion of the elderly in the population in the future and provide them with an adequate level of retirement income. The aging of the population therefore has serious social, economic and political implications which will impact on retirement income arrangements and the quality of life for the elderly.

The significance and implications of population aging were not lost on the architects of the American, British and Canadian social security

systems. In the United States, when the social security system was first being put into place in 1935, Harry Hopkins, a member of the President's Committee on Economic Security, understood that "there are going to be twice as many old people thirty years from now" and realized that the "old age thing is a bad curve."¹⁸ For political reasons the economics of an aging population were ignored at that time, but some forty-five years later the tax-based U.S. social security system is in a chronic deficit position. In Britain, according to Titmuss, "much of the... anxiety about the effects of an 'aging' population can be traced back to the Beveridge Report."¹⁹ While history has shown that the White Paper upon which Beveridge based his population projections overstated the situation, it is apparent that the implications of an aging society were of concern at that time. Marsh observed in 1943 that because "the birth rate in Canada is declining steadily, it will not be difficult to see that the problem of provision for old age will become one of increasing importance in future years."²⁰

If the implications of an aging society were of concern to the founders of the modern welfare state, they are of no less importance to current social security programming. The U.S. President's Commission on Pension Policy, for example, pointedly concluded that

as the population of the country matures severe strains will be placed on our already overburdened retirement income system. The inequities and inadequacies of the present retirement income system will become more critical as more people retire and the active work force to support them [relatively] shrinks.²¹

Similar policy conclusions have also been advanced for Canada in a number of studies,²² and the issue has been raised as being relevant to Britain.²³

3.3 Demographic Trends: The Case of Canada

Throughout the course of this century, the proportion of the aged in Canada is expected to grow at an accelerated rate. In 1981, 9.4 per cent

of the Canadian population was over the age of sixty-five. This will increase to 12 to 15 per cent of the population by the year 2011 when the "baby boom" generation begins to retire and will subsequently rise to 17 to 25 per cent in 2031 when the shift in age composition will peak. These projections are outlined in Table 3.1. The proportion of elderly in the Canadian population over the next 30 to 50 years is therefore projected to increase by 200 to 300 per cent.

While some commentators have suggested that population trends in Canada only lag those of Western Europe by some twenty years,²⁴ it is interesting to note that in Sweden, viewed as the prototype of an aging society by many demographers, the proportion of the elderly in the population peaked at 16 per cent. This compares with modal range projections for Canada of 20 to 24 per cent of the population being over the age of sixty-five in 2031. In this regard the Economic Council of Canada noted that "by the second decade of the coming century this country will experience the same high levels of aging as now exist in Europe; by 2031 it will surpass them."²⁵

A useful summary indicator for population aging is the median age of the population. Table 3.2 outlines the past and projected median age of the Canadian population. As will be noted, it has continuously increased, with the exception of the temporary reversal caused by the "baby boom", and will continue to do so during the remainder of the twentieth century and halfway through the next. In 1981 the median age was nearly 30 years and will rise to 42 years in 2031 when the "baby boom" peaks, after which the median age begins to decline.

Demographers and economists divide the population for analytic purposes into dependent and non-dependent categories of people. The total dependent category is defined as youth (or young) dependents plus elderly (or aged) dependents. One of the characteristics associated with an aging

TABLE 3.1

PERCENTAGE OF POPULATION AGE 65 AND OVER,
CANADA, 1971 - 2071,
COMPARISON OF POPULATION PROJECTIONS

| YEAR | STATISTICS CANADA ¹ | | ECONOMIC COUNCIL OF CANADA ² | | | | ROMANIUC ³ | | | | FOOT ⁴ |
|------|--------------------------------|-------|---|------|------|------|-----------------------|------|-------|------|-------------------|
| | P-I | P-III | P-01 | P-05 | P-06 | P-10 | P-I | P-II | P-V | PVI | |
| 1971 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 8.1 | 8.1 | 8.1 | 8.1 | n.a. |
| 1981 | 9.4 | 9.4 | 9.4 | 9.5 | 9.5 | 9.6 | 9.4 | 9.3 | 9.3 | 9.2 | 9.7 |
| 1991 | 10.7 | 11.0 | 10.7 | 11.3 | 11.0 | 11.6 | 11.3 | 10.9 | 11.1 | 10.7 | 11.4 |
| 2001 | 11.2 | 11.9 | 11.5 | 12.7 | 12.0 | 13.2 | 13.1 | 12.4 | 12.7 | 12.1 | 12.3 |
| 2011 | 11.8 | 12.9 | 12.4 | 14.4 | 13.1 | 15.2 | 14.9 | 13.9 | 14.5 | 13.5 | 13.5 |
| 2021 | 13.6 | 16.4 | 15.4 | 19.1 | 16.2 | 20.0 | 19.2 | 17.4 | 18.6 | 17.0 | 16.6 |
| 2031 | 16.9 | 20.2 | 18.3 | 24.2 | 19.2 | 25.3 | 23.5 | 20.8 | 22.7 | 20.2 | 20.9 |
| 2041 | n.a. | n.a. | 17.5 | 25.2 | 18.6 | 26.6 | 23.3 | 20.3 | 22.6 | 19.8 | 20.8 |
| 2051 | n.a. | n.a. | 17.6 | 25.2 | 18.7 | 26.7 | 23.3 | 20.6 | 22.6 | 20.1 | 20.7 |
| 2061 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 23.6 | 20.7 | 22.9 | 20.3 | n.a. |
| 2071 | n.a. | n.a. | n.a. | n.a. | n.a. | n.a. | 23.3 | 20.5 | 232.7 | 20.1 | n.a. |

- Notes: 1. Demographic assumptions as follows: P-I constant mortality, increase in fertility net replacement level of 2.1, high migration of 100,000 per year; P-III constant mortality, decline in fertility to 1.7, medium migration of 75,000 per year.
2. Demographic assumptions as follows:
P-01 Medium mortality, fertility, immigration
P-05 Medium mortality, low fertility, medium immigration
P-06 Low mortality, medium fertility, medium immigration
P-10 Low mortality, low fertility, medium immigration
3. Demographic assumptions as follows:
P-I Mortality increasing to 76.7 years for males and 84.5 for females by 2000. Low fertility of 1.9, low migration of 60,000 per year.
P-II Same mortality as in P-I, net replacement level of 2.13, low migration of 60,000 per year.
P-V Same mortality as in P-I, low fertility of 1.9, high migration of 100,000 per year.
P-VI Same mortality as in P-I, net replacement level of 2.13, high migration of 100,000 per year.
4. Assumptions based on no change from current demographic trends.

Sources: Statistics Canada, Population Projections for Canada and The Provinces, 1976 - 2001 (Ottawa: Minister of Trade, Industry and Commerce, February 1979), p.29, 121, 131, 215, 255, 466 and 468; Frank T. Denton, Christine H. Feaver, and Byron G. Spencer, The Future Population and Labour Force of Canada: Projections to the Year 2051. A study prepared for the Economic Council of Canada (Hull: Supply and Services Canada, 1980), p.29 and Table 5-4, p.32; A. Romaniuc, "Potentials for Population Growth in Canada", A Population Policy for Canada?, The Conservation Council of Ontario and The Family Planning Federation of Canada (Toronto: CCO and FPF, 1974), Table II, p.15 and David K. Foot, Canada's Population Outlook: Demographic Futures and Economic Challenges (Ottawa: Canadian Institute for Economic Policy, 1982), Table 3-9, p.106 and assumptions in Table 3-1, p.86.

TABLE 3.2
HISTORICAL AND PROJECTED¹
MEDIAN AGE
OF
CANADIAN POPULATION, 1901 - 2051

| <u>CENSUS YEAR</u> | <u>MEDIAN AGE (YEARS)</u> |
|--------------------|-------------------------------|
| Historical | |
| 1901 | 22.7 |
| 1911 | 23.8 |
| 1921 | 24.0 |
| 1931 | 24.8 |
| 1941 | 27.1 |
| 1951 | 27.7 |
| 1961 | 26.3 |
| 1971 | 26.2 |
| 1981 | 29.5 |
| Projected | |
| 1991 | 33.0 |
| 2001 | 36.9 |
| 2011 | 39.3 |
| 2021 | 40.5 |
| 2031 | 42.0 |
| 2041 | 42.4 |
| 2051 | 42.0 |

Note: 1. Assumptions based on no change from current demographic trends.

Source: David K. Foot, Canada's Population Outlook: Futures and Economic Challenges (Ottawa: Canadian Institute for Economic Policy, 1982), Table 1-7, p.23 and Table 3-9, p.106.

population is the decreasing proportion of young and the increasing proportion of elderly. It is the compositional shift within the total dependent category, that is between young and old dependents, and the costs associated with each, which is crucial in terms of public expenditures on and income security programming for the elderly.

The historical and projected trends with respect to the total, youth and elderly dependent categories is presented in Table 3.3. A series of key trends become evident. The long-term total dependency category as a proportion of the population remained within a relatively stable range during the twentieth century until 1971. Historically, there has been a secular decline in the proportion of the young and a long-term increase in the percentage of the elderly which has resulted in a fairly stable total dependency ratio. Until now, in other words, the increasing proportion of elderly in the population has generally been offset by the decreasing proportion of young.

TABLE 3.3
HISTORICAL AND PROJECTED TOTAL,
YOUTH AND ELDERLY DEPENDENT CATEGORIES
AS A PERCENTAGE OF POPULATION,
CANADA, 1901-2051

| <u>Census Year</u> | <u>(1) Youth Dependents²</u> | <u>(2) Elderly Dependents³</u> | <u>Total Dependent Category⁴ (1+2)</u> |
|------------------------|---|---|---|
| Historical | | | |
| 1901 | 34.4 | 5.0 | 39.4 |
| 1911 | 32.9 | 4.7 | 37.6 |
| 1921 | 34.4 | 4.8 | 39.2 |
| 1931 | 31.6 | 5.6 | 37.2 |
| 1941 | 27.8 | 6.7 | 34.5 |
| 1951 | 30.3 | 7.8 | 38.1 |
| 1961 | 33.9 | 7.6 | 41.5 |
| 1971 | 29.6 | 8.1 | 37.7 |
| Projected ¹ | | | |
| 1981 | 22.5 | 9.7 | 32.2 |
| 1991 | 21.4 | 11.4 | 32.8 |
| 2001 | 19.4 | 12.3 | 31.7 |
| 2011 | 17.4 | 13.5 | 30.9 |
| 2021 | 17.2 | 16.6 | 33.8 |
| 2031 | 16.4 | 20.9 | 37.2 |
| 2041 | 16.2 | 20.8 | 36.9 |
| 2051 | 16.4 | 20.7 | 37.1 |

Notes: 1. Based on no change from current demographic trends.
2. Defined as those under 14 years of age.
3. Defined as those over the age of 65.
4. Those aged 0 to 14 plus those 65 and over divided by total population.

Source: David K. Foot, Canada's Population Outlook: Demographic Futures and Economic Challenges (Ottawa: Canadian Institute for Economic Policy, 1982), Table T-2, p.9, Table 3-9, p.106, Table 4-1, p.129.

Beginning in the early 1980s a number of significant trends reverse themselves with far-reaching consequences. Between 1981 and 2011 the decline in the proportion of young is greater than the increase in the proportion of elderly. This is reflected in the decline of the total dependency category as a result of the "baby boom" having swelled the size of the working age population. After 2011, however, the total dependent category begins to increase. This reflects the greater increase in the number and proportion of elderly relative to the decline in the proportion of youth dependents because of continued low birth rates. Between 1981 and 2031, when the demographic shift peaks, youth dependents will decline by 6.1 percentage points, whereas elderly dependents will increase by 11.2 percentage points. The total numerical dependency proportion will

therefore increase by some 5.5 percentage points, reflecting the compositional shift in the non-working (or dependent) population.

It has been suggested that the dramatic increase in elderly dependents (11.2 percentage points or 115.5 per cent, representing 20 to 24 per cent of the total population) is of no major consequence since it will be offset by a declining youth dependency ratio, resulting in no significant net increase in total public expenditures. This conclusion has been put forward in various analyses, including the Croll Special Senate Committee on Retirement Age Policies. It argued that "despite certain pessimistic predictions that have been made about the projected aging of the Canadian population, the outlook for the future can be considered bright" because "the cost of supporting a growing older population should be offset by the savings from the reduced expenditures on a declining young dependent population."²⁶

Such an optimistic conclusion is based on an incomplete analysis and a series of unwarranted technical and political assumptions. The questionable assumptions are the following: equating the absolute numerical dependency ratio with an expenditure dependency index, an implicit assumption that the costs associated with supporting an elderly dependent are the same as for a young dependent, and a hidden technical assumption that public expenditure on young and elderly dependents is held constant into the future.

An analysis based solely on absolute numerical dependency ratios, as in Table 3.3, is of limited value because it ignores the implications of the higher relative per capita cost, such as state retirement benefits and health care, of maintaining an elderly dependent associated with the increasing proportion of older people in the population. To gauge fully the economic implications of an aging society requires that the level of public expenditures associated with each dependent category (youth and elderly) be

established since the future costs of these programs can be anticipated to reflect their numbers in the population. Based on U.S. and Canadian studies it has been established that the per capita cost for an elderly dependent is 2.5-3.0 times greater than for a young dependent; the available evidence for Britain suggests a similar conclusion.²⁷ In terms of public expenditures it is relatively more expensive to support an elderly person than a young one.

The future cost of each dependent category can be related to its changing proportion in the population by constructing what Foot has called an Expenditure Dependency Index.²⁸ This is a weighted dependency ratio where the weights reflect the per capita public expenditures of servicing the youth and elderly dependent categories. Table 3.4 reports the change in the total Expenditure Dependency Index, with benefits held constant, based on the increase in the proportion of the elderly in the population. Between 1981 and 2031, when the "baby boom" retires, the Expenditure Dependency Index rises, depending on the assumption used, from 47 to 65 per cent. What is significant in terms of economic impact and social policy is that these total dependency expenditure levels are the highest ever recorded.

In assessing the implications of an aging society at the demographic peak in 2031, the Economic Council of Canada estimated that the cost of public expenditures on retirement income programs alone will increase from the current 4 per cent of gross national product (GNP) to 12 to 17 per cent of GNP, depending on benefit levels and demographic assumptions.²⁹ "Since support costs are much greater for the old than the young," the ECC report notes, "total dependency costs are likely to continue to increase; they may even accelerate."³⁰ The increased proportion of the relatively more costly elderly is projected to more than offset the decreased proportion of the relatively less costly young and will result in increased pressures on government expenditures.³¹

The claim that the rising cost associated with an increasing proportion of the elderly in the population will be offset by the declining

TABLE 3.4
HISTORICAL AND PROJECTED
EXPENDITURE DEPENDENCY RATIO,¹
CANADA, 1901-2051

| Census Year | Expenditure Dependency Index ² (1979=1.0) | |
|------------------------|---|-------|
| | W = 2 | W = 3 |
| Historical | | |
| 1901 | 1.17 | 1.07 |
| 1911 | 1.08 | 0.98 |
| 1921 | 1.15 | 1.05 |
| 1931 | 1.08 | 1.00 |
| 1941 | 1.00 | 0.95 |
| 1951 | 1.18 | 1.13 |
| 1961 | 1.34 | 1.27 |
| 1971 | 1.17 | 1.13 |
| Projected ³ | | |
| 1981 | 0.98 | 0.99 |
| 1991 | 1.05 | 1.08 |
| 2001 | 1.03 | 1.08 |
| 2011 | 1.02 | 1.09 |
| 2021 | 1.24 | 1.35 |
| 2031 | 1.47 | 1.64 |
| 2041 | 1.46 | 1.62 |
| 2051 | 1.46 | 1.63 |

- Notes: 1. This is a weighted dependency ratio, where the weights reflect the relative costs of servicing the different age groups in the population.
2. W denotes the relative cost of servicing the elderly (those 65 and over) compared to the young (ages 0 to 17). Thus W = 2 denotes that the per capita cost for an elderly dependent is twice that of a young dependent and where W = 3 the cost of an elderly person is three times that of a young dependent. The estimate for W2 is based on a Canadian study by Linda McDonald, "Changing Population and the Impact on Government Age - Specific Expenditures", an unpublished study prepared for the Federal Treasury Board Secretariat, Ottawa, 1977. The value for W3 is based on an American study by R. Clark and J. Spengler, "Changing Demography and Dependency Costs: The Implications of New Dependency Ratios and Their Composition", Aging and Income: Programs and Prospects for the Elderly, ed. Barbara Herzog (New York: Human Science Press, 1978), pp.55-89. It must be noted and emphasized that W is held constant throughout the projection horizon. This means that expenditures are assumed to be held constant both retrospectively and in terms of future cost projections.
3. Based on a no change scenario with respect to fertility and mortality assumptions.

Source: David K. Foot, Canada's Population Outlook: Demographic Futures and Economic Challenges (Ottawa: Canadian Institute for Economic Policy, 1982), Tables 4-4 and 4-5, pp. 138-139, and pp. 136-137.

proportion of young dependents is also highly questionable because of a critical and usually unidentified underlying assumption in this formulation. The Expenditure Dependency Index analysis is based on the static ceteris paribus assumption that per capita public expenditures on young and old dependents are constant in the future as they affect cost projections.³² This is an unrealistic, if not unwarranted, assumption. In the first instance such an assumption is at variance with the economic needs of the elderly as established in Chapter 2. Second, in a fluid policy environment where it is anticipated, for example, that retirement income payments from the state pension system will increase, this static assumption underestimates the public expenditures associated with an aging population.

Some rough orders of magnitude, based on existent empirical research, have established cost estimates associated with a rising elderly dependent category. For example, to improve the benefit formula under the Canada/Quebec Pension Plans, from the present 25 to 40 per cent of the average industrial wage, would result in a 125 per cent increase in pension costs as a percentage of total output.³³ Hospital expenditures, as estimated by Statistics Canada, could rise by as much as 109 per cent (in constant dollars) by the year 2031, primarily as a result of the increasing number of older people.³⁴ In Britain the average cost of care and treatment of an elderly person currently is seven times that of a person of working age.³⁵ In the U.S., the Senate Special Committee on Aging estimates that the elderly's share of the Federal budget will increase from 26 per cent in 1981 to 63 per cent by 2025.³⁶ The point is that the "constant expenditure" assumption incorporated into the Expenditure Dependency Index analysis, reflecting the compositional change in the total dependency ratio, is unrealistic. The weight of evidence suggests that the costs associated with an aging population will, in all likelihood, be considerably greater than anticipated.

The relevant consideration with respect to demographic trends as they affect the economics and political demography of an aging population is the number of non-earners in the population who must be supported by the active labour force. Table 3.5 outlines the pension ratio and the inverse pension ratio. The significance of these proxies is that they indicate, in somewhat different ways, the relationship between the increasing proportion of elderly and the relatively declining labour force required to support them in the future. The pension ratio is the elderly category as a percentage of the labour force; the inverse pension ratio is the number of labour force members per elderly person. From 1981 to 2031, the elderly as a proportion of the active labour force dramatically increases from 14.3 to 33.2 per cent. Thus the elderly category more than doubles in size in relation to the labour force supporting it. The significance of the increasing proportion of

TABLE 3.5
HISTORICAL AND PROJECTED
PENSION RATIO AND INVERSE RATIO,
CANADA, 1901-2051

| <u>Census Year</u> | <u>Pension Ratio¹</u> | <u>Inverse Pension Ratio²</u> |
|------------------------|--------------------------------------|--|
| Historical | | |
| 1901 | 8.3 | 12.0 |
| 1911 | 7.5 | 13.4 |
| 1921 | 7.9 | 12.7 |
| 1931 | 8.8 | 11.3 |
| 1941 | 10.2 | 9.8 |
| 1951 | 12.5 | 8.0 |
| 1961 | 13.1 | 7.7 |
| 1971 | 13.0 | 7.7 |
| Projected | | |
| 1981 | 14.3 | 7.0 |
| 1991 | 17.0 | 5.9 |
| 2001 | 18.1 | 5.5 |
| 2011 | 19.5 | 5.1 |
| 2021 | 25.9 | 3.9 |
| 2031 | 33.2 | 3.0 |
| 2041 | 32.9 | 3.0 |
| 2051 | 32.9 | 3.0 |

- Notes: 1. Number of persons aged 65 years and over divided by the number of persons aged 15 to 64 years.
2. Inverse of pension ratio, indicating the ratio of labour force members per elderly dependent.

Source: David K. Foot, Canada's Population Outlook: Demographic Futures and Economic Challenges (Ottawa: Canadian Institute for Economic Policy, 1982), Table 7-1, p.219, Projection 1, current trends.

elderly in Canadian society is further illustrated by the fact that there are presently 7 employed persons for each retired person; by the year 2031 there will only be 3 workers for each elderly dependent.

The aging of the population and the demographic shifts and trends outlined here will have an important impact on the economics of aging and politics because there will be an increasing "burden" on the working age population in order to support an increasing proportion of elderly. This is because,

the relatively larger proportion of the elderly will lead to an increase in public expenditures, and hence to [an]...increased tax burden on... the reduced portion of those of working age.

This increasing tax burden on those of working age, especially in an aging population, is also predicted [because]...in general, this group bears the greatest share of the costs of and receives the least share of the benefits from public service.³⁷

These intergenerational and sectoral transfers are all the more politically volatile under a tax-based state social security system and during periods of slow real economic growth.

From a social policy perspective, it has been suggested that resources must be transferred from the young to the elderly if the increasing needs of the aged are to be met without increasing the tax burden on the employed.³⁸ Whether such a transfer can in fact be achieved is highly problematic because of the rigidity of the capitalist state's budget³⁹ and the resistance of vested interest groups. This suggests that there will be "a substantial increase in the tax burden on the working population to support the senior members of the population in the future."⁴⁰

The aging of the population has clear intergenerational and sectoral implications. Higher direct taxation, or payroll tax deductions (contributions), to finance the tax-based state pension system to support the elderly reduces the current consumption of the actively employed labour

force and increases labour costs for the corporate sector. Therefore, the economic needs of the increasing proportion of elderly will conflict with the desire of the active labour force to preserve its standard of living and the cost minimization behaviour of the corporate sector. As a result of population aging, the opposing economic interests of the elderly, the active labour force and corporate sector may generate increased intergenerational and sectoral tension and conflict in the future.

3.4 Comparative Demographic Trends: Canada, U.S., and Britain

Population aging is a reality in advanced industrialized countries such as Canada, Britain and the United States. Many of the problems associated with the aging of the population are likely to be similar: an increasing proportion of the elderly in the population, a rising median age, a compositional shift within the total dependent category, increasing public expenditure on the aged and a relative decline in the labour force to support the increasing number of elderly. The following analysis briefly compares and contrasts the demographic trends which will affect the operation of the pension system in each of these countries.

Historically, North America has had a young age structure, while Western European countries have exhibited old population pyramids. Currently Western Europe is in a stable state with 10 to 12 per cent of the population over the age of 65. This trend is expected to continue until roughly 1990 when at that time the median age of the population will gradually begin to increase until 16 to 18 per cent of the population will be over the age of 65.⁴¹ In North America, in the early 1980s, 9 to 11 per cent of the population is elderly. This is rapidly and continuously increasing. By the year 2030, 20 to 25 per cent of all people will be over the age of 65 in North America.

Table 3.6 reports the proportion of the population in Canada, Britain and the U.S. over retirement age between 1970 and 2051. The

TABLE 3.6
COMPARISON OF THE
PERCENTAGE OF POPULATION
OVER RETIREMENT AGE,
CANADA, U.S., AND BRITAIN,
1970 - 2051

| Year | Canada | | | United States ⁵ | Britain ⁶ |
|---------|--------------------------------|-------------------|-------------------|----------------------------|---|
| | Statistics Canada ² | ECC ³ | Foot ⁴ | | |
| 1970-71 | n.a. ⁷ | n.a. ⁷ | n.a. ⁸ | 9.8 | 16.3 |
| 1980-81 | 11.0 | 9.5 | 9.7 | 10.7 | 17.5 |
| 1990-91 | 11.9 | 11.3 | 11.4 | 12.7 | 17.5 |
| 2000-01 | 12.9 | 12.7 | 12.3 | 12.9 | 16.4 |
| 2020-21 | 20.2 | 19.1 | 16.6 | 17.8 | 17.4 ⁹ (18.6 ¹⁰) |
| 2030-31 | n.a. | 24.2 | 20.9 | 22.1 | n.a. |
| 2040-41 | n.a. | 25.2 | 20.8 | 22.8 | n.a. |
| 2050-51 | n.a. | 25.2 | 20.7 | n.a. | n.a. |

- Notes: 1. Retirement age is 65 in Canada and the U.S. In Britain age 65 for males and 60 for females.
2. Statistics Canada Projection III, low fertility.
3. Economic Council of Canada, Projection 5, low fertility, medium immigration.
4. Projection 1, constant current fertility.
5. U.S. Bureau of Census, Series III, current fertility.
6. Office of Population Censuses and Surveys, 1978 variant.
7. Series projected on basis of 1976 data.
8. Projected on basis of 1979 data.
9. Principal, or medium, fertility assumption.
10. Low fertility assumption.

Sources: For Canada, Statistics Canada, Population Projections for Canada and The Provinces (Ottawa: Minister of Trade, Industry and Commerce, February 1979); Frank I. Denton, Christine H. Feaver, and Byron G. Spencer, The Future Population and Labour Force of Canada: Projections to the Year 2051. A study prepared for the Economic Council of Canada (Hull: Supply and Services Canada, 1980) and David K. Foot, Canada's Population Outlook: Demographic Futures and Economic Challenges (Ottawa: Canadian Institute for Economic Policy, 1982). For the U.S., U.S. Bureau of the Census, Current Population Reports, Series III. The data for the U.K. was calculated from the Central Statistical Organization, Social Trends 10 1980 Edition (London: HMSO, 1980), Table 1.2, p.64 and Table 1.8, p.68.

demographic trends in Canada and the United States are substantially similar, while those in Britain diverge from this pattern.

Over the next fifty years both the United States and Canada are projected to have in excess of 20 per cent of their population over the age of 65. Based on current demographic trends, the U.S. is expected to have a somewhat larger elderly population than Canada in the future. Differences in demographic history account for these variations. Canadian fertility and birth rates have been higher than in the U.S., only converging in the late 1960s.⁴² After World War II both countries experienced a similar jump in fertility rates that peaked in the late 1950s. At the height of the "baby boom", the Canadian fertility rate was 3.9, while that in the U.S. was 3.8. However, in the 1950s the number of births rose more sharply in Canada than in the U.S. In Canada in the mid-1950s there were 28 births per 1,000, compared with a high of 25 in the United States.⁴³ Since that time the fertility rate has dropped dramatically in both countries.

The marginally greater proportion of elderly in the United States as compared with Canada, despite a higher birth and lower death rate in the later, is attributable to the higher rate of immigration in Canada and the somewhat lower fertility rate assumption used for the U.S. in these projections.⁴⁴ This has resulted in a higher net rate of population increase in Canada, marginally reducing the proportion of elderly in the population.

In Britain nearly 18 per cent of the population was over retirement age in 1980. Britain therefore already has an elderly population which is 65 to 80 per cent greater than in Canada and the U.S. respectively. This large elderly cohort in Britain, compared with the U.S. and Canada, was the result of the large increase in births around 1920. Unlike Canada and the United States, which experienced one long period of high birth rates between 1945 and 1960, Britain in fact has gone through two distinct high birth rate periods: 1941 to 1947 and 1955 to 1964.⁴⁵ This discontinuity in

high birth rates will be correspondingly mirrored by the number of elderly dependents some 65 years in the future. Those in the short "baby boom" (1941 to 1947) will retire in the first decade of the next century and will represent nearly 17 per cent of the total population. The first wave of the second, and larger, British "baby boom" will constitute 17 to 19 per cent of the population around 2020, depending upon the demographic assumptions used.⁴⁶

There are a number of characteristics differentiating North American and British population structures in the short and long-term. First, while Britain already has a higher proportion of elderly than does Canada and the United States, in the long-term the proportion of elderly in all of these countries will be nearly similar. Second, there is an important difference in the rate of increase in the number and proportion of elderly in these countries. The proportion of elderly in the U.K. has levelled off and will only incrementally increase by 7 to 14 per cent over the next 50 years, while in North America the proportion of elderly will increase by nearly 150 to 200 per cent over the same time period. Third, by the year 2030 when the "baby boom" generation retires, the elderly population in Canada and the United States will exceed that of Britain, with the demographic pressures being the most pronounced in the U.S.

The critical demographic future for Britain after 2020 is not known with any certainty. The U.K. statistical services have been reluctant to project that far. The second "baby boom" (1955-1964) is already in the labour force, however, the size of the future labour force to support it can only be tentatively projected because of the uncertainty surrounding the important, and sensitive, fertility rate assumption used in these forecasts. On the basis of the medium fertility rate assumption used by the U.K. Office of Population Censuses and Surveys, a "baby boomlet" is forecast between 1980 and 2000. Since 1963 fertility rates in Britain have dropped

precipitously as they have in all other industrialized countries,⁴⁷ the low fertility assumption, therefore, may be more realistic. The fertility assumption which is used is of considerable importance since it will estimate the size of the labour force which will have to support the elderly in the future.

Table 3.7 presents two sets of data for Canada, Britain and the United States: the elderly as a proportion of the actively employed labour force (pension ratio) and the inverse pension ratio (labour force to elderly). In the United States and Canada the elderly as a proportion of the labour force continuously rises over the next half century peaking in 2030 at 33.2 per cent in Canada and 39.0 per cent in 2040 for the U.S. The trends in Britain are somewhat more moderate, depending on the fertility assumption used. Based on the more realistic low fertility projection, however, the elderly will be in the order of 30 per cent of the labour force. This roughly corresponds to the pension ratio around 1990, which had been affected by the earlier high 1920 birth rate and subsequent low fertility during the depression years. However, if low fertility is projected into the future, it may be expected that the proportion of the elderly in the total U.K. population, and the elderly as a proportion of the labour force, will increase after 2020 and will more nearly resemble the anticipated North American trends. This analysis suggests that demographic pressures will be relatively more acute in the U.S. and Canada, and more moderate in the U.K.

While the general trend towards an aging society is evidenced in all these countries, and will generate similar pressures, even in Britain which already has a large elderly population, the specific forms of political resistance to supporting an increasingly aged population may be different in each case. This does not nullify, however, the general proposition that the economic interests of the elderly are at variance with those of the active labour force and business sector.

TABLE 3.7
COMPARISON OF
PENSION¹ AND INVERSE PENSION RATIOS,²
CANADA, U.S., AND BRITAIN,
1970 - 2051

| Year | Canada | | United States | | Britain | |
|---------|---------------|---------------|---------------|---------------|--|--------------------------------------|
| | Pension Ratio | Inverse Ratio | Pension Ratio | Inverse Ratio | Pension Ratio | Inverse Ratio |
| 1970-71 | 13.0 | 7.7 | 17.3 | 5.7 | 28.1 | 3.6 |
| 1980-81 | 14.3 | 7.0 | 18.4 | 5.4 | 29.2 | 3.4 |
| 1990-91 | 17.0 | 5.9 | 20.0 | 5.0 | 29.2 | 3.4 |
| 2000-01 | 18.1 | 5.5 | 20.2 | 4.9 | 27.5 ³ (27.9 ⁴) | 3.6 ³ (3.6 ⁴) |
| 2010-11 | 19.5 | 5.1 | 21.2 | 4.7 | 27.9 ³ (29.6 ⁴) | 3.6 ³ (3.4 ⁴) |
| 2020-21 | 25.9 | 3.9 | 28.6 | 3.5 | n.a. | n.a. |
| 2030-31 | 33.2 | 3.0 | 37.6 | 2.7 | n.a. | n.a. |
| 2040-41 | 32.9 | 3.0 | 39.0 | 2.6 | n.a. | n.a. |
| 2050-51 | 32.9 | 3.0 | n.a. | n.a. | n.a. | n.a. |

Notes: 1. Elderly dependents as a percentage of labour force. In Canada and the U.S. those over age 65; in Britain males over 65 and females over 60.
2. Inverse of pension ratio.
3. Principal, or medium, fertility assumption.
4. Low fertility assumption.

Sources: David K. Foot, Canada's Population Outlook: Demographic Futures and Economic Challenges (Ottawa: Canadian Institute for Economic Policy, 1982), Table 7.1, p.219; For the U.S., Bureau of Census, Current Population Reports, Series P-25, No. 704, Series III, July 1977. Data for the U.K. was calculated from the Central Statistical Organization, Social Trends 10 1980 Edition (London: HMSO, 1980), Table 1.2, p.64 and Table 1.8, p.68.

This situation is a consequence of the differences in the level of current contributions required to support the state social security retirement system in each of these countries. In Britain and the United States the state pension system is tax-based (payroll deductions), referred to technically as pay-as-you-go (PAYGO) financing, where each generation pays for the cohort which preceeds it. The Canada Pension Plan (CPP) is on a PAYGO basis, while the Quebec Pension Plan (QPP) is partially funded. Pension systems based on PAYGO financing are highly sensitive to demographic changes: as the proportion of elderly increases, the necessary level of contributions required to pay retirement benefits goes up. This would suggest that intergenerational tensions, and political resistance to increasing public expenditures and social security contributions to support the elderly, might be greater in the United States and Canada, where there is a more dramatic rate of increase in the proportion of the elderly, compared with the case of Britain, where the proportion of elderly has stabilized and will only marginally increase in the future.

In the United States total contributions to the social security retirement system are currently 13.8 per cent (split between employee and employer) of eligible earnings. By 1990 total contributions will rise to 15.4 per cent with further substantial increases necessary in the future to accommodate the aging population. The existence of the well publicized "Proposition 13" mentality and the periodically threatened reduction in social security benefits is concrete evidence that the upper limit of political tolerance may have already been reached in terms of supporting the elderly.

The political dynamic in Britain may be expected to be comparable to that in the U.S. Despite the fact that Britain's elderly dependent category is relatively stable, total contributions to National Insurance for retirement benefits are 13.5 per cent of income to the upper earnings limit (the 16.0 per cent contribution figure frequently cited

includes other items such as maternity and redundancy benefits). According to a study by the Organization for Economic Co-operation and Development (OECD), the level of taxation in Britain is one of the highest in Western Europe.⁴⁸ In 1980 for a one earner family at the average production worker's salary level, Britain ranked fourth of all Western European countries in terms of income tax paid as a percentage of gross earnings; Britain ranked tenth out of sixteen OECD countries with respect to disposable income as a percentage of gross earnings.⁴⁹ Increasing the level of public expenditures to provide an adequate retirement income on behalf of the elderly would therefore require even higher levels of direct taxation or payroll tax deductions than presently exist. "One implication of the increasing ratio of elderly to...[those] working," Wroe noted, "is that if the standard of living of the elderly is growing in line with earnings, an increasing proportion of each [active] workers earnings is required to support them."⁵⁰ Britain may already be at the upper limit of political tolerance, and social resources, as evidenced by the fact that the method of indexation for state retirement income payments has been adjusted from the earnings to the price index.

In Canada political resistance to supporting an aging population is also likely to grow, but for quite different reasons. Total contributions to the Canada/Quebec Pension Plans (C/QPPs) are currently 3.6 per cent (split between employee and employer). This is the lowest level of contributions to a social security system in any industrialized country. To maintain current benefit levels will require that contributions be increased from 3.6 to 8 to 10 per cent. To double benefits, in order to bring them up to comparable international standards, would require an increase in total contributions from 3.6 to 16.0 per cent. Unlike the U.S. and Britain, where resistance to further social security contribution increases may exist because contribution levels are already high, in Canada there may be

political resistance because they presently are low and will require a major increase in the near future. Any increase from a low to high level of state pension contributions represents a reduction in the standard of living for the active labour force and an increase in the corporate sector's labour costs. As a result of a massive government deficit, the June 1982 Budget limited the indexation of the tax-based Old Age Security (OAS) pension to 6 per cent, half of the increase in the cost of living at that time. This is further indication of the political volatility of the trade-off between the economic needs of the elderly (expenditures) and an increased level of taxation (revenue) on the work force.

While the underlying dynamic in each of these national cases is somewhat different, the problems associated with the aging of the population are basically the same as a result of the economic interests of the elderly being opposed to those of the active labour force and business community. Social policy and politics will be accordingly affected by the change in age composition.

3.5 The Demographics of Politics and The Politics of Aging

The politics of aging will be a concomitant of the demographic transition. The rebellious "baby boom" generation of the 1960s will be the elderly of the future. Age-based politics are likely to take at least two forms: first, a profound difference in intergenerational expectations; and second, the political mobilization of the elderly into age-based organizations. The elderly like other historically "inarticulate" stratum of the labour force in advanced industrial countries - Blacks, the Quebecois and women - are now beginning to organize and assert themselves. This political dimension will have long-term implications for pensions policy.

3.5.1 Intergenerational Expectations. A series of comprehensive surveys in Canada, Britain and the United States between 1975 and 1985

have established that the current and future elderly have fundamentally different attitudes and expectations with respect to retirement income adequacy, pension arrangements, and the willingness to pay for improved benefits.⁵¹ These different expectations may generate their own set of social tensions and political problems in the future, especially as they affect the large "baby boom" cohort which will retire in the next century.

A number of important intergenerational differences emerge. Significantly, 60 per cent of the elderly in the U.S. and 40 to 85 per cent of the aged in Canada perceive their current economic situation as adequate,⁵² despite the reported incidence of poverty among the elderly. Nearly 75 per cent of the "baby boom" generation, however, view the elderly's current level of retirement income as inadequate and have considerably greater expectations as to what constitutes an "adequate" retirement income.⁵³ This divergence of views is readily explained in terms of the different life-cycle experience of each age cohort. The current elderly, it can be argued, have internalized the trauma of the depression years and World War II and are marked by an "invisible scar"⁵⁴ which has served to diminish or limit their expectations, whereas the future elderly, that is the "baby boom" generation, have had their expectations inflated by a generally bouyant and prosperous post-war economy.

This sharp intergenerational difference with respect to retirement income expectations is also reflected by the fact that more than 80 per cent of the "baby boom" generation in Canada and the U.S. expect to maintain their pre-retirement standard of living,⁵⁵ contrary to the reality experienced by the current elderly. In Canada 45 per cent of the "baby boom" cohort expect a total income replacement rate on retirement of 50 to 80 per cent; in Britain, 60 per cent want a replacement rate of 75 per cent or more.⁵⁶ Furthermore, nearly 70 per cent of the "baby boom" generation in the U.S. and 50 per cent in Canada expect to receive income from the private pension system.⁵⁷ This is at variance with the reality

which suggests that no more than 25 per cent of the labour force, or 50 per cent of occupational pension plan members, will receive income from this source. It also ignores dependence on the state pension system as the primary source of retirement income. Over 90 per cent of the "baby boom" generation, however, are of the view that an "adequate" retirement income should be "guaranteed" as a right.

If the "baby boom" generation has considerably higher expectations of retirement income adequacy than does the current generation of elderly, are they willing to pay the necessary level of taxes or pension contributions? And are the younger generation who will have to support them prepared to accept this "dependency burden"? According to American survey data, only 48 per cent of those between age 18 and 39 are currently prepared to raise social security taxes.⁵⁸ In Britain, 53 per cent of people between age 16 and 34 are prepared to pay additional pension contributions, but only by 25 to 74p per week.⁵⁹ Survey data in Canada indicate that only 49 per cent of all people, 51 per cent of the "baby boom" cohort and 46 per cent of blue-collar workers are willing to pay increased contributions to the state pension plan. And only 30 per cent of these are prepared to pay as much as an additional 2 per cent towards the current low level of C/QPP contributions.⁶⁰ This information suggests that while the "baby boom" generation has "great expectations", they have a limited willingness to pay for them.

With respect to the generation aged 16 to 24 - that is, those who will be required to support the "baby boom" cohort in the future - recent Canadian surveys found them characterized by "defeated hopes", "security consciousness", and "social conservatism".⁶¹ More than 80 per cent of the 16 to 24 year old group are of the view that people should rely more on "individual initiative" than on government and nearly 85 per cent agreed that the current budget deficit is "unfair".⁶² This is the cohort which will

be required to support the large generation of "baby boom" elderly in the future. The "dependency burden" associated with an aging population is at variance with the "security consciousness" and "individualism" of the generation required to support the increasing proportion of the aged because it would result in a reduction of their current consumption.

The point to be made, in brief, is that the "baby boom" generation's "expectations exceed the reality"⁶³ with respect to retirement income adequacy. These expectations conflict with their limited willingness, or ability, to pay additional pension contributions or reduce benefits accordingly. Furthermore, the willingness of future generations to honour the "intergenerational contract" with respect to pensions, based on this survey data, is at best tenuous. The difference in intergenerational expectations and attitudes, and the ability of the pension system to satisfy those expectations, may well be the "long fuse" to the "population bomb". The unwillingness of the future elderly and young to pay increased social security contributions may frustrate the "baby boom" generation's aspirations and create a new and larger generation of poor-old dependent on tax-based "safety net" programs. This may stimulate the political mobilization of the elderly.

3.5.2 Age-based Politics and Organizations. The second manifestation of the politics of aging may witness the political mobilization of the elderly into age-based organizations.⁶⁴ From an historical perspective the political behaviour of the elderly may be understood in terms of Simmel's theory of conflict which postulates that suppression of conflict results in either apathy and withdrawal or that alternative forms of conflict will exhibit themselves.⁶⁵ The historical passivity of the elderly is suggestive of the former mode of accommodation. The rise of age-homogeneous groups and politics in recent years may be viewed as a response to the increasingly unstable structural position which the elderly

experience in terms of their role, status and economic positions in advanced industrial societies.⁶⁶ Age-based organizations are the vehicle through which the elderly will define and express their vested interests.

In the United States, England and Canada between 1900 and 1930 there was only sporadic and unsustained activity by retired groups.⁶⁷ Political activity undertaken by the elderly to advance their own interests did not surface in any serious way until the 1930s. In the United States during the years of the depression two grass roots movements of the elderly appeared: Upton Sinclair's EPIC (End Poverty in California) program and the Townsend Movement advocating that all people over age sixty receive a monthly pension of \$200.⁶⁸ With Townsend claiming 5 million supporters and at least sixty sympathetic congressmen in 1935, "to defuse such public clamor, the federal government clearly had to enact some sort of program."⁶⁹ The result was the Social Security Act 1935. In Britain, "the old were to become organized and articulate for the first time by the end of the thirties."⁷⁰ There was considerable TUC and Labour Party agitation for better pensions during this period. The forerunner of the influential National Federation of Old Age Pensions Association was founded in 1938. Political activity among the elderly in Canada during the 1930s was forestalled by the introduction of the Old Age Security (OAS) pension in 1927; however, the first provincial organization of old age pensioners was formed in 1932.⁷¹

The potential for organized political activity among the elderly has been recognized for some time and has often been viewed with suspicion. During the 1950s, for example, there was a fear that the "failure to integrate [the] ever-growing numbers of older people in American society" would "heighten opportunities for political deviancy."⁷² Within the context of Simmel's theory of conflict, it is probably more accurate to suggest that the emergence of age-based politics is an overt manifestation

of suppressed conflict which is now surfacing as the elderly become a significantly larger proportion of the polity.

The extent to which the elderly have organized themselves in recent years is indicative of this situation. The politics of aging is rapidly becoming a reality. In the United States in 1984 the four major elderly and pensioners' organizations represented nearly 75 per cent of those over the age of 65 and in Canada 31 per cent of the elderly.⁷³ In Britain, however, the proportion is much lower. Organizations such as the American Association of Retired Persons and the Gray Panthers in the U.S. and the National Federation of Old Age Pensions Associations in Britain have increasingly engaged in and oriented themselves towards political and lobbying activities. In addition, some associations such as the Canadian Council of Retirees, the U.S. National Council of Senior Citizens and the British Pensioners and Trade Union Action Committee have developed links to organized labour.

There is strength in numbers. The elderly will have political clout, both organizationally and electorally. In this regard so-called liberal, "pluralistic" democracies are particularly vulnerable to vested interest group politics. Politicians are increasingly aware of, and sensitive to, the elderly and the politics of aging. For example, William Davis, the former Conservative Premier of Ontario, noted that "the retirement income issue will take hold, and become a fundamental element of the politics of this country over the next few years."⁷⁴ The "gray lobby" in the U.S. has been recognized as a political force since the mid-1960s. In Canada, when the "baby boom" retires in 2011, the elderly will account for 20 per cent of all eligible voters and will represent in the order of 30 per cent of all people who participate in elections. In the United States those 65 and over will represent 30 per cent of the voting-age population by 2000 and an even larger proportion of those who exercise the franchise.

While some suggest that an aging population will be a conservatizing political influence,⁷⁵ it may be argued that the elderly may be a force for progressive social change. Contrary to the conventional wisdom, there is no mechanical relationship between aging and conservatism.⁷⁶ While the elderly may be more "conservative" than the young at any moment in time, studies indicate that people become more "liberal" over their life time and that "the political orientations of older people are not peculiar...and are very much in the mainstream of ...political opinion."⁷⁷ Other studies have established that the closer a political issue is to an individual, the more age has a significant affect upon the attitude towards that issue.⁷⁸ Therefore, age related issues such as pensions may have broader political repercussions as the population ages.

Another important consideration is that studies indicate that the political behaviour of those in the "baby boom" cohort, that is the future elderly, is highly volatile. This is compounded by a diminution of traditional party loyalties and an increase in "cross-over" voting patterns.⁷⁹ In the United States, for example, over one-third of "baby boomers" consider themselves to be political "independents".⁸⁰ This suggests that the electorate is increasingly issue oriented and interested in "ends" rather than "means".

The foregoing, in broad contour, suggests that the increasing proportion of elderly in the future, particularly in the U.S. and Canada, will become politically more cohesive and mobilized as a response to issues which affect them personally, such as pension related matters. This is not to say that the politics of aging will be without its class contradictions, as evidenced by the women's movement. The economic interests and expectations of the future elderly, an increasingly large, volatile and organized proportion of the population, however, may conflict with the "security consciousness" and "social conservatism" of that young age cohort

required to support them under current retirement income arrangements. This suggests that heightened intergenerational tensions may become a reality as the demographic future unfolds.

3.6 Implications of an Aging Population

Population aging, accompanied by declining fertility, decreased mortality and greater longevity, has significant implications for the economics of aging, retirement income arrangements, politics, and social policy towards the elderly. Those implications can be summarized as follows.

As a result of declining fertility and improved longevity there will be a significantly greater number and proportion of elderly in the population in the United States and Canada. While the proportion of elderly in Britain will be roughly comparable with that in North America, the rate of increase in the number of elderly will be significantly greater in Canada and the United States. The state and private pension systems will have a larger group of elderly dependents to support in the future as a result of increased longevity, particularly single women and the very old (those over 75).

The "baby boom" generation is already in the labour force. A state pension system ordinarily requires 30 to 40 years to mature (unless there is a phase-in of benefits). This suggests that the necessary social planning, particularly in the case of Canada, must be initiated in the near-term in order to cope effectively with the long-term demographic situation which is inexorably unfolding. In Canada this would require an increase in the income replacement rate under the state pension plan. A delay in reforming retirement income arrangements will result in a new and larger generation of elderly poor being created in the future because of the demographic transition. In Britain the existing state earnings-related pension system (SERPS) was designed to mature in 1998. This coincides with the retirement of the "baby boom" generation at the turn of the century. The implementation of the recent recommendation of the Fowler green

paper on the reform of social security (June 1985) to eliminate SERPS would, however, deprive this large cohort of elderly of a major source of retirement income, thereby creating a new generation of poor-aged. In terms of formulating public policy, strategic forward planning requires social security programming to be synchronized with the underlying demographic trends.

Total dependency costs (youth plus elderly categories) will rise significantly, reflecting the compositional shift towards an aging population, because it costs 2.5 to 3 times more to support an elderly dependent than a young one. If certain categories of expenditures such as state retirement income payments and health care costs increase, the level of public expenditures associated with an aging population will be significantly greater than expected and probably will not be offset as a result of a declining youth dependency ratio, economies of scale or productivity.

An increased proportion of elderly in the population, and continuing low fertility, will mean that there will be a relative decline in the size of labour force to support the increasingly large elderly category. The elderly as an increasing proportion of the labour force may place a "dependency burden" on the actively employed as a result of increased direct taxation and payroll deductions to support them. This may generate heightened intergenerational and sectoral tensions since increased public expenditures on behalf of the elderly dependent population will result in reduced current consumption for the active labour force and increased labour costs for the corporate sector. While the resultant tensions will undoubtedly take different forms, the social pressures and economic problems associated with an aging population can be expected to be similar in all these countries. Population aging has significant implications for such important macro-economic considerations as the type of funding arrangement, the level of contributions necessary to support the state

pension system, and the investment and use of the social security investment fund.

The economics of aging and the politics of demography associated with population aging in the advanced industrialized countries of the United States, Canada and Britain lead to three central conclusions. First, there is a cost associated with the increasing proportion of the elderly in the population which may be significantly greater than expected. Second, there is a divergence of economic interests between the elderly, the active labour force and the business sector because increased public expenditures for the aged, given existing institutional arrangements, result in reduced current consumption for the work force and increased labour costs for the corporate sector. Third, the aging of the population coupled with the immiseration of the elderly suggests that unless there is major reform of retirement income arrangements, a new and larger generation of elderly poor will be created in the future.

Demography as an element in the political economy of pensions will have an important affect on public policy and social security programming in the future. Demographic trends and their implications are now sufficiently predictable and critical that they can no longer be ignored. In the final analysis the pension issue is really nothing more than a concrete manifestation of the more universal problem of old age. Increasingly, however, one pressing problem has created a commonality of interest among the elderly - pensions.

CHAPTER 4

THE UNIVERSAL LIMITATIONS OF THE PRIVATE PENSION SYSTEM

"Rapid and unceasing change and the uncertainties of a working lifetime make individual planning for security essentially unrealistic. Economic security now depends on social or collective arrangements."

Robert Tilove

There are "private troubles and public issues".

C. Wright Mills

4.1 Introduction

The previous chapters have established that a significant proportion of the elderly in Canada, Britain and the United States is poor, and because of population aging in the future there is the prospect of a larger generation of elderly poor. They also demonstrated that in these countries the state pension system is the major source of retirement income for the elderly, accounting for 40 to 52 per cent of all income. Compared with this, the employer-based private pension system generates only 12 to 15 per cent of the elderly's retirement income; 68 to 74 per cent of the current elderly receive no income from the private pension system. The elderly's need for economic security, it was suggested, conflicts with the corporate sector's cost minimization behaviour and the active labour force's desire to maintain its current consumption by minimizing public expenditures such as social security contributions on behalf of the elderly.

The purpose of this chapter is to describe and analyze in some detail the universal limitations of the private pension system. These limitations explain the employer-based occupational pension system's

marginal role in the provision of retirement income for the elderly. The limitations of the occupational pension system, concurrent with the underdevelopment of the state retirement income system as outlined in Chapter 2.5, are the fundamental reasons for the elderly's current impoverishment.

During the course of the exhaustive public policy review of the retirement income system in Canada, any number of government studies have concluded that the private pension system is a failure.¹ The federal Department of Health and Welfare, for example, stated that

the failure of the retirement income system lies largely with the private employer-sponsored pension system.

The major shortcomings of the retirement income system are easy to summarize. Most basic is the lack of coverage by private pension plans, in conjunction with a lack of portability and of immediate vesting; few private pension plans index either pensions in pay or deferred pensions; and finally, few survivors have private pensions in their own right.

These observations suggest that large proportions of the aged will continue to receive little or no private pension income in the future.²

The Honourable Monique Begin, former federal Minister of Health and Welfare in Canada, pointedly noted that "the failure of the private pension plans has been the great disappointment in social programs in the 70's," because "private pensions are NOT doing the job Canadians expect them to do."³

In assessing the operation and social utility of the private pension system, the following evaluation criteria are commonly used: coverage, vesting (preservation), portability (transferability), inflation-proofing and income adequacy. This chapter is organized around these universal limitations. The deficiencies of the private pension system - namely limited coverage, poor vesting (preservation) standards, inadequate portability (transferability) arrangements, and the lack of post-retirement indexation - are universal features common to the employer-based occupational pension system in Canada, Britain and the United States. These inadequacies are

interactive and impact upon one another, limiting the efficiency and cost-effectiveness of the private pension system as a delivery mechanism for retirement income.

4.2 Limited Occupational Pension Plan Coverage

One of the critical factors explaining the inadequate level of retirement income generated from the employer-sponsored private pension system, necessitating reliance upon the state social security retirement system including tax-based "safety net" programs, is the limited, selective and uneven distribution of occupational pension plan coverage. Only privileged groups within the labour force have been successful in achieving private pension plan coverage, reflecting the stratification of the capitalist labour market.⁴

Employer-based pension plan coverage varies significantly according to income, occupation, industry, sector of the economy, size of enterprise, geographic location, degree of unionization, labour force attachment and sex. Most commonly excluded from occupational pension plan coverage are those earning below the average industrial wage, employees in small or labour intensive firms or industries, part-time and mobile employees, women, non-unionized employees and non-earners. In general, the distribution of occupational pension plan coverage corresponds to the configuration of the labour force in primary and secondary labour markets. The following reviews and analyzes the most important characteristics of occupational pension plan coverage.

4.2.1 Introduction of Private Pension Plans. An historical overview of occupational pension plan coverage indicates the limited extent to which the private employer-based pension system has been an effective means of ensuring retirement income for the labour force. Employer-based pensions in Britain, Canada and the United States were first introduced by

the railroads, banks, insurance companies, public utilities, and only later in the capital intensive oligopolistic manufacturing sector. A similar evolutionary pattern emerges in all three countries.⁵ The early origins of occupational pension plan coverage corresponds to the development of the modern bureaucratic state (central and sub-central) and the transformation to industrial capitalism with its large scale units of production, economies of scale, capital intensive investment and oligopolistic market structure. The introduction of occupational pension plans in Britain, Canada and the United States is outlined in Table 4.1.

Occupational pension plan coverage in Canada can be constructed and traced from various sources.⁶ Studies undertaken by the National Employment Commission (1937), a Queen's University Industrial Relations Survey (1938) and the first Dominion Bureau of Statistics survey of pension and welfare plans in industry (1947), all provide an insight into the early evolution of private pension plan coverage. The introduction of employer-based industrial pension plans in Canada between 1900 and 1947 is reported in Table 4.2.

The existence of occupational pension plans in Canada at the turn of the century was limited. Canadian developments were influenced by British example in the public sector and American events in the private sector.⁷ American corporate "welfare capitalism" as a managerialist ideology and strategy in the oligopolistic sectors of the economy in the late 1800s and early 1900s included the unilateral introduction of non-contributory, employer-sponsored and controlled pension plans. In Canada the number of occupational pension plans in the private sector did not significantly increase until the 1910-1919 period, coinciding with early American corporate penetration of the Canadian market.⁸ According to the Queen's University study, Canadian pension developments "were either the result of the direct extensions to Canadian subsidiaries, or of the indirect influence of United States plans in the same industries."⁹

TABLE 4.1
INTRODUCTION OF STATE, PRIVATE AND PUBLIC SECTOR PENSION PLANS,
BRITAIN, U.S., AND CANADA

| Country | State Plan | | Private Sector | | Public Sector | | |
|---------|---|-------------------------------------|--|---|--|-------------------------------------|--|
| | Flat-Rate | Earnings-Related | Employer-Sponsored | Manufacturing | Federal/ Central Gov't | State/ Provincial | Municipal/ Local Gov't |
| Britain | 1908 conditional, non-contributory Old Age Pension Act; 1925 Widows, Orphans and Old Age Contributory Act | 1959 contributory, graduated scheme | 1854 London and North Western Railway | 1842 Gas and Light Coke Company | 1834 Superannuation Act | Not applicable | 1829 Metropolitan Police; 1922 Local Authorities |
| U.S.A. | Left to the discretion of the individual States; 1914 Arizona, 1929 California relief for the needy elderly | 1935 OASDI | 1759 Presbyterian Ministers' Fund; 1875 American (Railway) Express | 1901 Carnegie Steel Co. | 1920 Federal Civil Service Retirement System | 1911 State of Massachusetts | 1857 New York City Police |
| Canada | 1927 means-tested Old Age Assistance; 1952 universal Old Age Security Act | 1966 Canada/Quebec Pension Plans | 1874 Grand Trunk Railway of Canada | 1908 International Harvester and Nova Scotia Colliery Workers | 1870 Federal Superannuation Act | 1876 Quebec Superannuation Aid Fund | 1880s Hamilton, Ontario. 1958 British Columbia Municipal Superannuation Act, ² province-wide. |

Notes: 1. Declared unconstitutional.

2. Individual municipalities had introduced occupational pension plans prior to this in various locations throughout Canada as early as the mid-1930s.

Sources:

Robert Myers, Social Security (Bryn Mawr: McCahn Foundation, 1975), Chapters 2 and 3; William C. Greenough and Francis P. King, Pension Plans and Public Policy (New York: Columbia University Press, 1976), Chapters 2, 4 and 5; Hewitt Associates "Employee

Retirement Systems: How It All Began", Pension World, Vol. 12 (July 1976); William Robinson (ed.), Social Security (London: Fabian Society, 1943), Chapter 10; Gerald Rhodes, Public Sector Pensions (Toronto: University of Toronto Press, 1965), Chapter 1;

G.D. Gilling-Smith, The Complete Guide to Pensions and Superannuation (Harmondsworth: Penguin Books, 1967), Chapters 1-3 and 22; Canada Department of Labour, Labour Gazette, various issues; Laurence E. Coward, Mercer Handbook of Canadian Pension and Welfare Plans (Don Mills: OCH Limited, 1977), Chapters 18 and 19.

TABLE 4.2
INDUSTRIAL PENSION PLANS
BY YEAR ESTABLISHED,
ALL INDUSTRIES, CANADA, 1900-1947

| <u>Date Established</u> | <u>No. of Plans</u> | <u>% of Plans</u> |
|-------------------------|---------------------|-------------------|
| Before 1900 | 7 | 0.2 |
| 1900-1909 | 59 | 1.7 |
| 1910-1919 | 172 | 4.8 |
| 1920-1929 | 369 | 10.4 |
| 1930-1939 | 465 | 13.1 |
| 1940-1947 | 2,340 | 66.0 |
| Not Stated | 133 | 3.8 |
| Total | 3,545 | 100.0 |

Source: Retabulated and calculated from the Dominion Bureau of Statistics, Survey of Welfare Plans in Industry 1947 (Ottawa: Queen's Printer, May 1950), Table 13, p. 29.

The prolonged business boom of the 1920s witnessed the expansion of "welfare capitalism" and the "pension movement".¹⁰ Between 1910 and 1929 the number of employer-sponsored pension plans in Canada tripled. Examples of American firms which introduced private pension plans into their Canadian operations included International Harvester (1908), Swift & Co. (1915), Bell Telephone (1919), Imperial Oil (1925) and Goodyear Tire and Rubber Company (1929). Occupational pension plans in North America during the 1920s became a permanent feature of liberal corporate industrial relations policy, both as an ideology and as part of a union substitution strategy.¹¹ Employer-sponsored pension plans became a means of promoting labour market stability, improving efficiency, strengthening loyalty to the firm and undermining unions. Occupational pension plans fulfilled an important "role as an ideological and economic control mechanism within the labour market."¹²

It was World War II which signalled the expansion of the private pension system. This growth is explained by three factors. First, during the war employee benefits, including pensions and vacations, were exempt from wage controls in Canada, Britain and the U.S. In all three countries government encouraged employers and unions to introduce pension plans in

lieu of direct monetary compensation on the grounds that they were non-inflationary. Second, income tax act regulations were clarified or amended so that private pension plan costs could be deducted as legitimate business expenses by corporations, thereby encouraging the introduction of employer-based pension plans. Third, in the immediate post-war period, unions for the first time seriously negotiated the introduction of occupational pension plans. Nearly two-thirds of all occupational pension plans in Canada were implemented between 1940 and 1947. Examples of pension plans introduced in this period include Weston's (1946), Great Lakes Paper (1947), Dominion Bridge (1947), Eaton's (1948), Coca Cola (1949), General Motors and Ford (1950). World War II, and the immediate post-war period, mark a watershed in the introduction of private pension plans and the expansion of coverage.

4.2.2. Private Pension Plan Coverage. To assess the private pension system as a source of retirement income requires that pension plan membership or coverage, rather than the number of plans, be determined. In order to facilitate this analysis, and place it in perspective, an historical time-series of private occupational pension plan coverage in Canada and the United States has been constructed and related to the total and non-agricultural labour force. For Britain, where background information is more complete, the data has been adapted to place it on a comparable basis. Summary Table 4.3 presents a transnational comparison of occupational pension plan coverage for Canada, Britain and the U.S. from 1929 to 1980. Detailed statistical work is presented in Appendices D 1-3. It should be noted that these historical time-series are constructed from disparate sources and should be interpreted with some caution. The evidence presented in Table 4.3 strongly suggests that the employer-based occupational pension system in these countries has provided only limited coverage for the delivery of retirement income for the majority of the

TABLE 4.3
SUMMARY COMPARISON
OF
EMPLOYER-SPONSORED OCCUPATIONAL PENSION PLAN COVERAGE AS A
PERCENTAGE OF TOTAL AND NON-AGRICULTURAL LABOUR FORCE,
CANADA, U.S., AND BRITAIN, 1929-1980

| Year | Employees Covered by Occupational Pension Plans as a % of Total Labour Force | | | Employees Covered by Occupational Pension Plans as a % of Non-Agricultural Labour Force | | |
|------|--|------|------|--|------|------|
| | Canada | U.S. | U.K. | Canada | U.S. | U.K. |
| 1929 | - | 9.7 | - | - | 12.9 | - |
| 1936 | - | - | 12.9 | - | - | 14.1 |
| 1938 | 7.6 | 11.3 | - | 16.3 | 17.9 | - |
| 1947 | 16.8 | 19.4 | - | 21.7 | 23.8 | - |
| 1950 | - | 21.6 | - | - | 26.3 | - |
| 1953 | - | - | 28.9 | - | - | 30.1 |
| 1955 | - | 30.3 | - | - | 36.7 | - |
| 1956 | - | - | 36.0 | - | - | 37.2 |
| 1960 | 28.1 | 36.5 | - | 31.6 | 43.6 | - |
| 1963 | - | - | 47.0 | - | - | 48.5 |
| 1965 | 33.8 | 40.5 | - | 35.9 | 46.9 | - |
| 1967 | - | - | 51.3 | - | - | 52.4 |
| 1977 | 33.7 | 41.9 | - | 35.9 | 48.1 | - |
| 1971 | - | - | 47.8 | - | - | 48.7 |
| 1975 | - | 45.4 | 44.0 | - | - | 47.7 |
| 1976 | 36.8 | - | - | 41.9 | 53.6 | - |
| 1979 | - | 45.7 | 44.7 | - | 51.0 | 49.6 |
| 1980 | 39.8 | - | - | 44.6 | - | - |

Notes: See Appendices D 1-3

Sources: Retabulated from Appendices D 1-3

labour force. The general pattern of coverage is similar, while exhibiting some national differences. The broad contours are outlined here.

Before World War II less than 13 per cent of the total labour force in these countries was covered by an employer-sponsored occupational pension plan. Coverage was highly concentrated in a number of capital intensive industries such as public utilities, railroads and heavy industry. One study of pension plan coverage in the late 1930s concluded that "industrial retirement plans will probably never be extended to the majority of employees" and "they cannot be regarded as an alternative to an inclusive state-operated plan."¹³

These time-series data confirm that the most dramatic increase in occupational pension plan coverage occurred in the post-World War II period. Between 1947 and 1960 private pension plan coverage nearly

doubled in Canada and the United States, and tripled in the U.K, but employer-sponsored pension plans covered only one-third of the total labour force. The increase in pension plan coverage was most marked in the private sector in the U.S. and Britain, while public sector coverage surged in Canada.

Between 1960 and 1970 there were modest advances in pension plan coverage in the U.S. and Canada. Britain experienced a period of rapid expansion between 1956 and 1967 when the number of employees covered increased from 8 to 12 million. Pension plan coverage in the United States and Canada was boosted by the dramatic increase in public sector unionization. From the end of the Second World War to 1970 total employer-based pension plan coverage doubled in absolute terms. Nevertheless, occupational pension plan coverage represented only 34 per cent of the total labour force in Canada, 42 per cent in the U.S., and 48 per cent in Britain.

During the 1970s, the rate of growth in occupational pension plan coverage declined in all these countries, suggesting that the upper limit of coverage under a voluntary employer-based pension system may have been reached. The U.S. President's Commission on Pension Policy noted that "the low rate of increase since 1960 raises doubts as to whether there will be substantial voluntary gains in the future."¹⁴ In Canada between 1978 and 1980 private pension plan coverage as a proportion of labour force remained static.¹⁵ The case of Britain is interesting, if not unique. Employer-sponsored pension plan coverage peaked in 1967 and has declined in absolute terms since that time. Total occupational pension scheme coverage decreased by nearly 13 per cent, while coverage in the private sector declined by 25 per cent.

Currently less than half of the total labour force in these advanced capitalist countries is covered by an employer-sponsored

occupational pension plan. Private pension industry representatives and some government agencies, such as Statistics Canada, have argued that the labour force concept (definition) used in such a measurement should be adjusted to reflect more accurately the extent of private pension plan coverage. Rather than use the broader total or non-agricultural labour force definition to measure coverage, they contend that it would be more appropriate to utilize the narrower full-time, employed paid worker statistical base which would exclude the unemployed, the self-employed, part-time employees, and non-paid family workers; as well, those under 25 and over 65 would be excluded from this calculation.¹⁶ This results in increasing occupational pension plan coverage in Canada from 40 to 54 per cent of the labour force. What is to happen to the remaining 46 per cent of this more narrowly defined labour force target group is not explained.

Such methodological rationalizations are dubious and a number of criticisms can be levelled against such an approach. In the first instance, the need for retirement income among the retired population is universal; that is, everyone reaching "normal" retirement age has a need for income. Therefore, the appropriate target group for the provision of retirement income is the entire retired population, not just a stratum of it. Second, using the category of "paid workers" in the labour force and relating it to private pension plan coverage is a tautological formulation because it serves to reinforce the notion that pension plan coverage should be selective rather than universal. Third, by using a narrowly defined labour force concept and measuring successively smaller target groups merely defines away the problem of limited pension plan coverage. While there are valid reasons why labour economists and statisticians use alternative labour force definitions, it is questionable whether such an exercise has any particular relevance for social policy in this instance.

In the post-war period, while there has been moderate absolute and relative growth in occupational pension plan coverage, the primary determinants of this growth have been the overall increase in the labour force, the expansion of the public sector, increased unionization and the contraction of the agricultural sector. The central issue remains, namely, that the majority of the labour force, particularly in the private sector, is not covered by an employer-based pension plan.

4.2.3 Concentration of Pension Plan Coverage. Occupational pension plan coverage is highly concentrated, both in the private and public sectors, and is closely related to the size of enterprise. The concentration of employer-based pension plan coverage is related to the organization of capital and the labour process in large-scale establishments in the private sector and bureaucracies in the state sector. The concentration and centralization of occupational pension plan coverage mirrors the more general tendency under advanced capitalism towards the centralization and concentration of capital in the private sector and the expansion of the bureaucratic state.

Pension plan coverage has always been highly concentrated. In the United States during the first quarter of the century, half of all workers covered by an occupational pension plan were employed by 13 corporations; 40 per cent were employed by the railroads and one-third were covered by the pension plans of 4 major corporations: U.S. Steel, American Telephone and Telegraph and the Pennsylvania and New York railroads.¹⁷ In Canada in 1938, 17 industrial pension plans accounted for 63 per cent of all pension plan coverage.¹⁸ Until World War II nearly one-third of all pension plan members were employed by the two railroads.¹⁹ In the late 1940s, 5 per cent of all industrial pension plans (excluding railroads) accounted for 61 per cent of total pension plan coverage.²⁰ In the post-war period private pension plan coverage has become even more concentrated. In 1960 in the

Canadian case, 1.4 per cent of all pension plans accounted for 68.8 per cent of all plan members. By 1980 the same proportion of plans accounted for nearly 75 per cent of all members.²¹ While the number of large plans increased from 129 in 1960 to 277 in 1980, this was primarily a result of the introduction of multi-employer pension plans in the public and private sectors.

Public sector pension plan coverage is more concentrated than in the private sector. In 1980 in Canada the 15 largest public employee pension plans covered nearly 75 per cent of all members as compared with the 30 largest private sector plans which accounted for only 33 per cent of all coverage. This is because "the public sector consists of some of the largest plans in the country notably those for federal employees... crown corporations and provincial employees"²² and large multi-employer public employee plans. The concentration of pension plan membership in the public sector is a reflection of the growth and consolidated of the capitalist state at all levels in the post-war era.

A corollary is that there is a direct relationship between occupational pension plan coverage and the size of enterprise. This explains the concentration of pension plan coverage. In the United States the proportion of workers covered ranged from 34 per cent for those in establishments with less than 100 workers to 81 per cent for firms with 500 or more employees. Only 42 per cent of all firms in Britain with less than 100 employees had a pension scheme, as compared to 98 per cent of all enterprises with 1,000 or more workers. A similar pattern exists in Canada.²²

4.2.4 Pension Plan Coverage by Sector. Total occupational pension plan coverage as a proportion of labour force, previously indicated in Table 4.3, is misleading because such aggregate statistics obscure and disguise the uneven distribution of coverage. Total coverage statistics must

be analyzed by sector and industry in order to assess more completely the limited nature of employer-based pension plan coverage.

While less than half of the total labour force is covered by an occupational pension plan, there is a significant difference by sector of the economy. A comparison of employer-sponsored occupational pension plan coverage in the public and private sectors is outlined in Table 4.4. In the public sector 75 to 93 per cent of the paid labour force is covered by an occupational pension scheme as compared with only 35 to 47 per cent in the private sector. Pension plan coverage is 2 to 3 times greater in the public sector than in the private sector.

TABLE 4.4
COMPARISON OF OCCUPATIONAL
PENSION PLAN COVERAGE
AS A PERCENTAGE OF
PAID LABOUR FORCE,¹
BY SECTOR,
CANADA, U.S., AND U.K., 1975-1979

| Country | Public Sector | Private Sector | Total Paid Labour Force |
|---------------------|-------------------|----------------|-------------------------|
| Canada ² | 92.6 | 34.5 | 48.3 |
| U.S. ³ | 88.0 ⁵ | 47.0 | 54.5 |
| U.K. ⁴ | 75.2 | 39.4 | 50.9 |

Notes: 1. Including armed forces.
2. 1978.
3. 1975.
4. 1979.
5. Including Federal, state and local retirement systems.

Sources: Information supplied to the author by the Pensions Section, Statistics Canada, January 13, 1981 and the U.S. National Social Security Reform Commission May 17, 1982; also the Government Actuary, Occupational Pension Schemes 1979 - Sixth Survey (London: HMSO, 1981), Table 2.1, p.5

The use of global pension plan coverage statistics obscures the limited extent of occupational pension plan coverage, particularly in the private sector. The high level of public sector pension plan coverage inflates the average total coverage figures reported, thus making the situation appear more respectable. For the private sector labour force, occupational pension plan coverage is especially limited.

4.2.5 Pension Plan Coverage by Industry. Employer-based pension plan coverage varies widely by industry within the private sector. In general, pension plan coverage tends to be relatively high in capital intensive, high wage, unionized, oligopolistic industries such as mining, petro-chemicals and manufacturing. Conversely, coverage is low in poorly paid, non-unionized, labour intensive industries characterized by either a competitive product market, or where there are a high proportion of women such as in community, business and personal services. The uneven distribution of employer-sponsored pension plan coverage by industry is presented in Table 4.5. A similar variation in pension scheme membership by industry is found in the U.S. and Britain.²⁴ Coverage under an occupational pension plan is a necessary, but not sufficient, condition to ensure receipt of retirement income from an employer-sponsored pension plan.

TABLE 4.5
PROPORTION OF PAID WORKERS
IN THE LABOUR FORCE COVERED BY PENSION PLANS,
BY INDUSTRY, CANADA, 1978

| <u>Industry</u> | <u>Percentage of Paid Workers Covered by Pension Plans</u> |
|--|--|
| Public Administration | 98.0 |
| Mines, quarries, oil wells | 67.6 |
| Transportation and Communication | 50.5 |
| Manufacturing | 50.2 |
| Construction | 47.9 |
| Finance, Insurance and Estate | 37.0 |
| Community, Businesses and Personal Service | 24.5 |
| Trade | 15.8 |
| Agriculture | 0.7 |

Source: Statistics Canada, Pension Plans in Canada, 1978 (Ottawa: Minister of Industry, Trade and Commerce, 1979), Text Table IV, p.18.

4.3 Inadequate Vesting Standards

The interaction between occupational pension plan coverage, labour market mobility, vesting (preservation) standards and portability

(transferability) arrangements determines whether employees will actually receive an employer-based pension. A fundamental distinction must be made between pension plan coverage and actual receipt of pension benefits at retirement. The divergence between pension plan coverage and actual receipt of benefits represents lost retirement income (technically referred to as "lapse" or "slippage") to members of the private pension system.

Vesting is defined by Canadian authorities as "the employee's right to all or part of the employer contributions paid on his behalf, on termination of employment before retirement, usually in the form of a deferred pension payable at normal retirement age."²⁵ Britain's Government Actuary defines preservation (vesting) simply as "a pension the right to which is preserved until retirement age is reached although the member has left employment in respect of which the pension is payable."²⁶ Vesting is contingent upon an employee satisfying an age and/or service requirement and usually takes three forms: immediate full, deferred full or deferred graduated vesting.

There is a close relationship between vesting standards and portability arrangements. The interrelationship between the vesting and portability of pension entitlements is made clear in a standard text which notes that there has been,

criticism in some quarters over the lack of "portability" or, more accurately, the lack of pension "preservation" for terminating employees. The problem was that employees who changed jobs usually lost their pensions because of inadequate vesting provisions...This... meant that [occupational] pension plans were much less effective than they appeared to be, for many employees who had been in several company pension plans received, in fact, little or nothing.²⁷

Vesting requirements in an employer-based pension plan are the crucial link between plan coverage and actual receipt of pension benefits at retirement. While a person may have pension plan coverage, unless the vesting requirements are satisfied, he will not be entitled to a deferred pension if he

changes employment prior to retirement. Rigorous vesting standards and the portability of pension entitlements between employers are necessary to ensure actual receipt of pension benefits.

4.3.1 Barriers to Adequate Vesting. Inadequate vesting standards in the private pension system are explained by a number of factors. Labour market mobility and length of employment with the same employer are the crucial determinants with respect to acquiring a right to a non-forfeitable or deferred vested pension at retirement. High labour market mobility, in conjunction with restrictive vesting provisions, has resulted in many employees losing pension benefits. According to a background study prepared for the Federal Task Force on Retirement Income Policy, most Canadians will change jobs on average six times during their life;²⁸ furthermore, mobility rates have increased in recent years.²⁹ Interestingly, an Economic Council of Canada study found that labour market mobility for those over age 45 was not appreciably different than for those age 25 or over.³⁰ The fragmentation of the labour market, coupled with labour market mobility, mitigates against most people ever satisfying the existent statutory vesting requirements for pension benefits. A considerable body of literature confirms that receipt of a pension is directly related to length of employment with the same employer.³¹ The Economic Council of Canada concluded that "the longer the vesting period, the more likely a worker will end up with benefits far below the maximum available to employees who do not change jobs."³²

The legal basis for vesting or preservation of pension benefits is the deferred wage doctrine.³³ One pension authority has acknowledged that

the concept that pensions should be a form of deferred pay has generally prevailed over the idea that they should be a bonus or gratuity for service. The concept of pensions as deferred³⁴ pay calls for early vesting, if not immediate vesting.

Current minimum legislative standards, however, neither recognize the reality of high labour market mobility nor the need for early vesting. In Canada the most common legislative standard provides for what is known as the "45 and 10" rule, despite recent improvements in some provincial jurisdictions,³⁵ which means that a person must satisfy both an age and service requirement to be entitled to a vested deferred pension at retirement. Under the statutory "45 and 10" rule, a person must be age 45 and have worked for the same employer for at least 10 years in order to qualify for a deferred benefit. In Britain the preservation rule provided for by legislation is age 26 and 5 years service; in the United States three alternative vesting schedules are permitted.³⁶

The economic and actuarial considerations underlying a defined benefit pension plan are of some significance since this is the most prevalent type of pension scheme. The lack of rigorous vesting standards has the effect of lowering the total cost of the pension scheme to the plan sponsor while providing the same level of benefits to those plan members who remain. The result is that employees who sever their employment relationship before vesting (early leavers) subsidize the pensions of those who remain. This reduces an employer's pension costs. Employee turnover, which generates this subsidy (referred to as the "fall-in"), is used as an actuarial assumption in the calculation to arrive at the cost of a defined benefit pension plan.³⁷ It may be true, as Bernstein argues, that "the losses of the many provide the funds with which the payoff is made to the lucky few - just as at any honest race track."³⁸ However, as a matter of public policy we are entitled to ask what are the odds of being a winner. Inadequate vesting requirements force those covered by the employer-based private pension system to gamble on receiving their retirement income. It might be suggested that economic security in old age is far too important to be left to chance, especially if the race is fixed.

Another economic function performed by inadequate vesting standards is to compensate a firm for employee labour market mobility. Such an analysis can be placed within the framework of human capital theory associated with the work of Becker, Mincer and Oi.³⁹ If an employee terminates his employment prior to being vested, the employer contribution on his behalf is returned to the firm or credited to the pension fund against future employer contributions. This lowers the total cost of the pension scheme to the plan sponsor. In theory this would also allow higher benefits to be paid at a fixed cost to those who remain. This, however, is not standard practice. In a highly mobile capitalist labour market poor vesting requirements in occupational pension plans effectively serve as a form of insurance against the loss incurred by a firm for recruiting and training an employee who terminates.

In addition to economic purposes, inadequate vesting provisions also serve a social control and labour discipline function. According to Kincaid, the employer "sees pension rights as a useful adjunct to discipline."⁴⁰ Restrictions on pension rights and other social security programs (i.e., social welfare) serve a social control function either for the individual employer or by the state on his behalf by limiting eligibility for benefits. Historically the receipt of an employer-sponsored pension was not a contractual right established through the employment relationship. A pension was paid at an employer's discretion to an employee for "good and faithful service". Early industrial pension plans were, according to Lubove, "first and foremost a technique of labour control. This helps to explain the indifference... to vesting employees with legal rights."⁴¹ During the famous 1919 Winnipeg general strike, for example, federal Minister of Labour Gideon Robertson issued the following threat to postal workers:

Unless they returned to work...signed agreements never to support a sympathetic strike and severed their relations with the Winnipeg Trades and Labour Council, they would be discharged at once with the loss of pension rights.⁴²

In Britain a director of Pilkington's candidly commented that the

supplementary [pension] fund controlled and contributed to by the company... was useful in the [1926] general strike. Benefits were automatically forfeited but men were reinstated with one shilling per week less pension rights.⁴³

Situations such as this prompted Brandeis to condemn occupational pension plans as a "form of strike insurance", which rob the worker of "his remaining industrial liberty".⁴⁴

The lack of adequate vesting provisions have therefore served a variety of economic, ideological and social control functions. The complexities and implications of inadequate vesting standards are examined more fully in the following section and, in turn, are related to the problem of portability.

4.3.2 Legislative Background. Legislation establishing an employee's legal right on termination to a non-forfeitable deferred pension at retirement was only recently introduced in Canada, Britain and the United States. Vested deferred pensions, based on an age and/or service requirement, which protect an employee's accrued pension, were not a legislative requirement in Canada until the passage of the Ontario Pension Benefits Act 1965. Other jurisdictions subsequently followed suited.⁴⁵ In the United Kingdom it was not until the Social Security Act 1973 that preserved (deferred) pensions for "early leavers" were guaranteed in law; the U.S. Employee Retirement Income Security Act 1974 for the first time introduced statutory vesting provisions in the private sector. The right of a plan member to an irrevocable pension on termination of employment, based on employer and employee contributions (in the case of a contributory plan), is thus relatively recent. There are no legislative requirements concerning the portability or transferability of pension entitlements between employers.

A longitudinal comparison of the proportion of occupational pension plans in the U.S., U.K. and Canada between 1938 and 1980 without

vesting provisions is outlined in Table 4.6. A number of considerations may be noted. Prior to the introduction of regulatory legislation in these countries, nearly 30 to 90 per cent of all pension plans had no provision whatsoever for vested deferred pensions. This effectively meant that any employee terminating employment prior to retirement would lose his pension entitlement. The data would suggest as well that there has been a considerable difference in the evolution of vesting standards in the U.S. and U.K. in one instance, and Canada in another. This is explained by the different attitude towards government regulation of business activity in each of these countries. The subsequent introduction of statutory vesting standards in the mid-1960s and 1970s has resulted in considerable improvement in vesting requirements in occupational pension plans. Gauging the adequacy of vesting provisions in terms of pension plans, however, is misleading since the relevant criterion is the proportion of employees who have satisfied these requirements. The most recent information indicates that even after legislative intervention in the U.S. (1974) and U.K. (1973), 52 and 25 per cent of pension plan members respectively were still not vested, particularly in the private sector.

The implications of inadequate vesting standards, particularly in the case of the U.K. and the U.S., will not become evident until some 30 to 50 years in the future when benefits from occupational pension schemes fail to materialize because employees never satisfied these vesting requirements. This consideration is especially relevant for the U.K. and U.S., where as late as the early 1970s, 66 to 90 per cent of all pension plans did not have any vesting provision. The data suggest that the biggest "pension losers" will be the large "baby-boom" generation who will suffer a loss of retirement income from the private pension system. A corollary is that this cohort of future elderly will have to rely on tax-based state retirement income programs as a result of this limitation of the private

TABLE 4.6

LONGITUDINAL COMPARISON
OF THE
PERCENTAGE OF OCCUPATIONAL PENSION PLANS
WITHOUT PROVISION FOR A VESTED DEFERRED PENSION,
U.S., U.K., AND CANADA, SELECTED YEARS, 1938-1980.

| Country | 1938 | 1954 | 1960 | 1964 | 1965 | 1967 | 1969 | 1970 | 1971 | 1972 | 1973 | 1974 | 1975 | 1978 | 1979 | 1980 |
|---------|-----------------|-----------------|-----------------|------|------|------|-----------------|------|------|-----------------|------|------|-----------------|------|-----------------|------|
| U.S. | - | - | - | - | - | 30 | 40 ¹ | - | - | 66 ⁶ | - | * | - | - | 52 ⁷ | - |
| U.K. | - | - | - | 84 | - | - | - | - | 89 | - | * | - | 13 ² | - | 25 ⁸ | - |
| Canada | 73 ³ | 18 ³ | 31 ⁴ | - | 35* | - | - | 0.56 | - | - | - | 0.46 | - | 0.26 | - | 0.46 |

Notes: * Regulatory pension legislation enacted.

1. Full vesting with 10 to 15 years service.
2. Full vesting at age 26 and 5 years service.
3. Full vesting with 15 to 20 years service.
4. Full vesting with 20 years service.
5. Full vesting at age 45 and 10 years service.
6. Full vesting with 10 years service.
7. Plan participants in the private sector.
8. Plan participants not receiving either transfer payments or a preserved benefit.

Sources: For the United States, Walter W. Kolodrubetz, "Characteristics of Workers with Pension Coverage on the Longest Job", U.S. Department of Health, Education, and Welfare, Social Security Administration, Reaching Retirement Age (Washington D.C.: GPO, 1976), note 1, p.162; Donald M. Landay and Harry E. Davls, "Growth and Vesting Changes in Private Pension Plans", U.S. Department of Labor, Bureau of Labor Statistics, Monthly Labor Review, Reprint No. 2571, May 1968, Table 3, p.32; Walter W. Kolodrubetz and Donald M. Landay, "Coverage and Vesting of Full Time Employees under Private Retirement Plans", U.S. Social Security Bulletin, Vol. 36, (November 1973), p.20 and Gayle Thompson Rogers, "Vesting of Private Pension Benefits and Change From 1972", U.S. Social Security Bulletin, Vol. 44 (July 1981), Table 2, p.19. For Britain, Michael Pilch and Victor Wood, New Trends in Pensions (London: Hutchinson & Co., 1964), p.65; Government Actuary, Occupational Pension Schemes (London: HMSO, 1971, 1975 and 1979). Queen's University, Industrial Relations Section, School of Commerce and Administration, Industrial Retirement Plans in Canada (Kingston, Ont.: Queen's University, 1938), pp. 67-69; "Vesting Provisions in Canadian Industrial Pension Plans", The Labour Gazette, LV (January 1955), Table 1, p.31; Dominion Bureau of Statistics, Pension Plans Non-Financial Statistics 1960 (Ottawa: Queen's Printer, 1962), Tables 17 and 18 and Statistics Canada, Pension Plans in Canada (Ottawa: Queen's Printer, various years).

pension system, thus exacerbating the fiscal cost associated with an aging population. Even in an ideal world with immediate vesting, however, there would be a loss of retirement income to occupational pension plan members because of limited portability (transferability) arrangements and the inadequacy of deferred vested pensions.

4.3.3 Deferred Vested Pensions. Improvements in statutory vesting standards are only a partial solution to the problem of the preservation of pension entitlements, because the value of a deferred vested pension depends upon three factors: the preserved value of the deferred benefit from the time of termination of employment to receipt of the benefit at retirement age, length of service to accrue pension credits, and final salary or earnings at the time of retirement. The interaction of these factors, concurrent with inadequate portability arrangements, limits the viability of deferred (preserved) pensions as a source of retirement income.

In the first instance, especially in the case of Canada and the U.S., the value of deferred vested pensions paid by occupational pension plans at the time of termination are not upgraded or revalued in accordance with either the price or earnings index during the deferral period. An individual who severs his employment has the value of his deferred pension eroded over the long-term, both in absolute and relative terms, as a result of increases in inflation and the gross national product. In Britain, preserved benefits in schemes which have "contracted-out" of the state pension plan must be revalued up to the guaranteed minimum pension (GMP).⁴⁶ Such a revaluation is not required of schemes which remain "contracted-in" to the state earnings-related plan or benefits that are in excess of the GMP for plans which "contract-out". Therefore, a mobile worker, even if covered by an occupational pension plan, and successfully vested, could in theory receive as many as six separate deferred partial pensions, all of which would be eroded by inflation over the pre-retirement

deferral period. This would result in limited retirement income actually being received.

Second, even if there were rigorous statutory vesting standards, without the full portability (transferability) of pension entitlements the sum of two deferred vested pensions for a person is not the same as that which would have been generated with the same years of service had that person remained with the same employer until retirement age. With pension arithmetic, the whole is not equal to the sum of the parts because a deferred vested pension, under a defined benefit pension plan, is calculated on the basis of the number of years of service times the salary of the person at the time of termination, rather than on the basis of the salary at retirement. A person taking a deferred vested pension foregoes any increase in salary between termination and retirement, thereby reducing the salary base upon which the pension is calculated.

The illustration presented in Table 4.7 demonstrates the limitations associated with deferred vested (preserved) pensions under current private pension system arrangements. As a result of the interrelationship between the length of service to accrue pension benefits and the lower salary on termination when vested, two people with the same total pensionable service would have a difference of 47 per cent in their pension benefit at the time of retirement. According to a 1981 U.K. Occupational Pensions Board study, "early leavers" who change jobs receive a pension which is 40 to 60 per cent less, depending upon the assumptions used, than a "stayer" even if the total years of pensionable employment were the same.⁴⁷ For "early leavers" the problem is compounded by the erosion of the vested pension over the deferral period as a result of inflation.

This example also serves to emphasize, as well, the need for portability arrangements between employers. The interrelationship between inadequate vesting provisions and limited portability arrangements results in

TABLE 4.7
COMPARISON OF PENSION BENEFIT
RECEIVED BY AN EARLY LEAVER AND STAYER
UNDER A DEFINED BENEFIT PENSION PLAN¹
PROVIDING A DEFERRED VESTED BENEFIT, CANADA, 1978

| <u>Employment Pattern</u> | <u>Unit Credit (Accrual Rate/Yr.)</u> | <u>Years of Service</u> | <u>Salary</u> | <u>Pension Benefit</u> |
|---|---|-----------------------------|-------------------------|---|
| Worker A | | | | |
| Individual remains in service of same employer | 2% | x 35 years | x \$57,644 ² | = \$40,351 |
| Worker B | | | | |
| Individual changes employment at age 45 | 2% | x 15 years | x \$14,900 ³ | = \$ 4,470 ⁴ (vested ⁵) |
| | 2% | x 20 years | x \$57,644 ² | = \$23,058 |
| | | | Total | \$27,528 |

Notes: 1. In a defined benefit pension plan the benefit is equal to the accrual rate x years of service x salary.

Assumptions: Entrance age 30 and works for 35 years.
Salary at age 45 is the 1978 average industrial wage of \$14,900.
Salary at age 65 is \$57,644.
Salary increase assumption of 7 per cent a year, based on Department of National Revenue and the Ontario Pension Commission's regulation of a maximum 1 percentage point spread on a maximum 6 per cent interest rate assumption, then in existence.

2. Final salary at time of retirement.
3. Salary at time of termination with deferred vested pension.
4. Deferred benefit not revalued or increased to either the price or earnings index.
5. Assuming the "45 and 10" rule.

a significant number of small partial deferred pensions being generated from the private pension system. A consequence of inadequate vesting standards is the low "take-up" rate for full benefits received by occupational pension plan members. This "leakage" from the private pension system represents lost retirement income to plan members.

4.3.4 Receipt of Occupational Pension Benefits. What is of significance from a social policy perspective in terms of assessing the private pension system is the level and distribution of actual pension benefits received by plan members. Determining the "take-up" rate - that is, the proportion of actual pension benefit recipients to occupational

pension plan members - is one way to evaluate the social utility of the private pension plan system as a delivery mechanism for retirement income. The best available evidence suggests that there is a low "take-up" rate and a high level of "leakage" from the private pension system. The significance of this is that a high proportion of those covered by an occupational pension plan never in fact receive a pension at retirement. This is directly attributable to the current poor vesting requirements and limited portability arrangements associated with the employer-based private pension system.

Studies for the United States, Britain, and Canada between 1944 and 1977 have established that only 10 to 54 per cent of those covered by an occupational pension plan ever received a retirement benefit.⁴⁸ To date, remedial legislative intervention would appear to have had only a modest effect. After the passage of the Employee Retirement Income Security Act 1974 the U.S. Bureau of Labor Statistics and the Pension Rights Centre estimated that only 33 to 45 per cent of all occupational pension plan members would ever receive a retirement benefit. As late as 1979 only 48 per cent of all full-time employees in private sector pension plans in the U.S. had acquired vested pension rights.⁴⁹ In Britain, Altmann's quantitative study, based on Family Expenditure Survey (FES) data, determined that in the period between 1970 and 1975 the mean probability of receipt of an occupational pension plan benefit for men aged 65 and over was only 54 per cent.⁵⁰ In Canada, a 1973 study undertaken by the Régie des Rentes du Québec (Quebec Pension Board) found that only 3.1 per cent of all private pension plan "leavers" would have satisfied the statutory "45 and 10" vesting rule. A 1977 Health and Welfare Canada survey determined that only 53 per cent of male and 28 per cent of female pension plan members ever actually received a retirement benefit. All of these studies indicated a strong positive relationship between length of employment with the same employer and actual receipt of pension benefits at retirement.

These data confirm that there is a low "take-up" rate for benefits by occupational pension plan members. Conversely, there is a high level of "leakage", or lost benefits, from the private pension system. Limited employer-based pension plan coverage, coupled with inadequate vesting requirements, explains the low proportion of retirement income received by the elderly from the private pension system.

4.3.5 Relationship between Coverage, Vesting and Benefits. The proportion of those over retirement age who have actually received a retirement pension from the private pension system, given current arrangements, is limited. The data reported in Table 4.8 indicates that in Canada in 1979 only 38 per cent of the current elderly were in receipt of occupational pension plan benefits. The increase in the proportion of those in receipt of pension benefits between 1972 and 1979 reflects the growth of employer-sponsored pension plan coverage in the preceding thirty-five year

TABLE 4.8

PRIVATE PENSION PLAN RECIPIENTS,¹
AS A PERCENTAGE OF ELDERLY,²
CANADA, 1969 AND 1972-1979

| Year | Private Pension Plan Recipients | No. Age 65 and Over (000) ³ | Private Pension Plan Recipients as a % of Elderly |
|------|---------------------------------|--|---|
| 1969 | 392,525 | 1,671 | 23.5 |
| 1972 | 552,504 | 1,801 | 30.7 |
| 1973 | 614,986 | 1,858 | 33.1 |
| 1974 | 672,027 | 1,915 | 35.1 |
| 1975 | 699,717 | 1,972 | 35.5 |
| 1976 | 738,229 | 2,029 | 35.4 |
| 1977 | 759,096 | 2,086 | 36.4 |
| 1978 | 813,922 | 2,143 | 37.9 |
| 1979 | 828,993 | 2,200 | 37.7 |

- Notes: 1. Total of all pension benefits (retirement, disability and survivors) paid, including full and partial retirement benefits.
2. Those over age 65.
3. Extrapolated between census years.

Sources: Statistics Canada, Social Security, National Programs 1978 (Ottawa: Minister of Industry, Trade and Commerce, 1978), Table A, p. 174; Statistics Canada, Pension Plans in Canada, 1980 (Ottawa, Minister of Supply and Services, 1982), Table XXX, p. 98 and information supplied to the author by Statistics Canada, Pension Section, July 1982.

period, and does not necessarily imply that there has been an improvement in the "take-up" rate for benefits. Indeed, the levelling off of occupational pension plan membership in recent years, as previously noted, would suggest that the proportion of elderly in receipt of employer-sponsored pension plan benefits may not significantly increase in the future.

There are strong reasons to believe that occupational pension plan recipients as a proportion of the elderly, however, are statistically over reported. First, the number of pensions paid, as reported by Statistics Canada, include all pension benefits-retirement, disability and survivors.⁵¹ More complete data for the U.S. and U.K. indicate that only 20 and 32 per cent respectively of the current elderly are in receipt of retirement (partial or full) benefits from the private pension system. Second, current vesting provisions coupled with high labour market mobility result in a large number of small partial deferred pensions being paid out, rather than robust full pensions.⁵² The data with respect to the number of pension benefit recipients in Canada does not differentiate between full or partial pensions paid out or received. This results in a further statistical overstatement of the total number of pension recipients, since each may be receiving a number of small partial deferred pensions.

Inadequate vesting standards, and the problems associated with partial deferred pensions, are compounded by the lack of portability, or transferability, of pension entitlements between employers. This further reduces the effectiveness of the private pension system.

4.4 Limited Portability Arrangements

Vesting and portability of pension entitlements are integrally related. The vesting problem is in the final analysis a portability or transferability problem. Portability is another form of vesting since it ensures the necessary continuity of service required to qualify for a deferred vested pension upon retirement. According to the Federal Task

Force on Retirement Income Policy, as little as 49 per cent of a person's working years would count towards pensionable service given current labour market mobility and the "45 and 10" vesting rule in most jurisdictions.⁵³ One recent technical study based on computer simulations concluded that "vesting, which takes the form of a deferred pension, is much less effective... than is full portability, which allows pension credits to be transferred from one private plan to another."⁵⁴

If a person changes employment several times before retirement, and is unable to make transfers of either pension contributions or benefits when vested, he will be forced to collect pension payments from several different pension plans at retirement. This explains the large number of partial deferred pensions, rather than full pensions, generated by the private pension system. More importantly, without the transferability of pension entitlements a person may not remain on any one job long enough to satisfy the vesting requirements in order to benefit from the contributions made on his behalf by an employer. Indeed, it is entirely possible, given labour market mobility, that a person might be covered by a pension plan on every job and never qualify (vest) for a deferred pension. This is because the lack of portability breaks the continuity of service necessary to satisfy the vesting requirements.⁵⁵ Even if he should satisfy the vesting requirements for a deferred pension on successive jobs, however, the retirement income accruing from different private pension plans would not be as great as that generated from one occupational pension plan, as previously shown in Table 4.7, and would be eroded by inflation until retirement age.

Portability allows the transfer of either pension contributions or benefits under a defined benefit plan, from the pension fund of one employer to the fund of another in respect of an employee whose employment is terminated with the first and finds employment with the second. This is

transferability in a literal sense. While transferability arrangements are relatively common in the public and para-public sectors in Britain, Canada and the U.S., portability between pension plans in the private sector is quite rare. This is because, while portability in theory can be arranged between different employer-sponsored pension plans, there are numerous technical difficulties arising from the valuation of contributions or benefits, differing benefit formulas, contribution levels, actuarial assumptions and funding ratios between "importing" and "exporting" pension plans. To resolve the portability problem would require either a central pension agency under public or private sector control to facilitate transferability, or improved vesting standards coupled with the indexation (preservation) of deferred pensions.

The current lack of portability arrangements compounds the problems associated with inadequate vesting requirements and limited occupational pension plan coverage. The combined interaction of these factors helps to explain why such a low proportion of the elderly's income is derived from the private pension system. Remedial action to ameliorate these problems would not in itself, however, be sufficient to provide economic security for the elderly because the income generated from the private pension system is eroded by inflation in the retirement period.

4.5 The Erosion of Retirement Income

Inflation hurts those on fixed incomes such as pensioners. Pensioners are caught in a fixed income-price spiral squeeze. A necessary condition for maintaining an adequate level of retirement income is the preservation of real purchasing power in the retirement period. Post-retirement income must be increased to offset inflation in order to maintain its real value. Such arrangements under state and occupational pension plans are referred to as "indexation", "escalation" or "inflation-proofing". The lack of inflation-proofing for employer-based

occupational pension plans, particularly in the private sector, has become all the more apparent because of the prolonged period of inflation experienced in North America and Western Europe during the 1970s.

4.5.1 The Problem. In Canada between 1971 and 1981 the average annual inflation rate was 7.8 per cent, ranging from a low of 2.9 per cent in 1971 to a high of 12.5 per cent in 1981.⁵⁶ The United States and Britain have experienced similar, and often higher, levels of inflation. Such a long term inflationary climate has serious ramifications on the operation and solvency of occupational pension plans, as well as for the economic position of the elderly.

The inflation rate of the past decade has seriously eroded the value of occupational pension plan benefits, both those in pay and deferred (vested) pensions. At a constant inflation rate of 8 per cent a year, the average retired person will see the purchasing power of his or her occupational pension eroded by 65 to 75 per cent respectively during the retirement period.⁵⁷ By way of example, the average annual private pension paid in Canada in 1970 was \$1,734. By 1981 it was worth only \$732, or 58 per cent of its original value. For a young person with a deferred vested pension payable at age 65, its value at retirement may be virtually zero. Inflation has similarly resulted in a deterioration of the economic position of those covered by occupational pension schemes in Britain.⁵⁸ In economic and human terms it is the elderly who are the most vulnerable to inflation. Inflation compounds the elderly's economic impoverishment and social marginalization.

4.5.2 Pensioner Indices and Expenditure Patterns. Industrial nations in the late 1950s began to adjust social security retirement programs by indexing benefit levels to changes in price or wage movements.⁵⁹ This raised the issue of which index was most appropriate for inflation-proofing

pensions, or whether a Pensioners Index should be constructed to reflect the special expenditure patterns of the elderly.

In Canada, for example, it has been argued that the "Consumer Price Index is not the right measure for indexing pensions" because "the basket of goods and services on which the C.P.I. is based does not represent typical expenditures of [those] over 65."⁶⁰ Private pension industry representatives in Canada have promoted the construction of a special pensioner's index in an attempt to justify the partial rather than the full indexation of retirement benefits.⁶¹ Presently only the Federal Republic of Germany and Britain have a special consumer price index for retired persons. In Britain, however, this index is not used to adjust state social security benefits for inflation.⁶² Currently neither the Canadian nor U.S. governments have published an official Pensioner's Index. The evidence for the U.K. between 1962 and 1968 indicates that the Pensioner's Index rose nearly 4 percentage points more than did the general price index;⁶³ between 1970 and 1980 there was less than 1 percentage point difference.⁶⁴ In the United States empirical studies indicate that between 1970 and 1977 "'prices' for the aged increased 3% to 4% faster than the CPI"⁶⁵ because inflation had a disproportionate effect on those items which are weighted heavily in the elderly's budget.

The elderly spend considerably more on basic necessities such as food, fuel and housing than do general households, and marginally more on services. The impact of these different expenditure patterns is dependent on both the rate of price increase and the absolute price level. In recent years the major expenditure components of pensioner household budgets have experienced above average price increases. The elderly's expenditure patterns, based on U.S. and British data, differ considerably from those of the general population. It does not follow, however, that their pecuniary

needs are any less as is asserted by some representatives of the private pension industry.⁶⁶

Generally consumption patterns are established on the basis of a budget constraint. Expenditure patterns reflect the allocation of income within a given finite budget. The elderly cannot negotiate wage increases; they cannot raise the prices of their goods and services. Their maintain alternative is to cut costs, that is reduce their standard of living. The budget constraint faced by the elderly results in a substitution effect within their budget from non-essentials to basics, such as margarine for butter or fuel and housing for durable goods and amenities. Inflation reinforces the substitution effect because it is precisely those heavily weighted basic components of the elderly's budget such as food, fuel, housing and services which have experienced the most rapid rate of price increase in recent years. The indexation of state and occupational pension plan benefits is necessary, therefore, to maintain the elderly's standard of living in an inflationary climate.

4.5.3 Indexation of Occupational Pension Plans. The private pension system, provides only limited protection against inflation. As is reported in Table 4.9, 40 to 87 per cent of all occupational pension plan members in Britain, Canada and the U.S. have no automatic indexation of post-retirement pension benefits to offset inflation. Only 6 to 21 per cent of all plan members have automatic escalation to cover the full increase in the consumer price index. The lack of formal indexation provisions, particularly in the private sector, reflects the reluctance of employers to assume an open-ended financial commitment to protect their former employees from inflation.

The automatic indexation of post-retirement pension benefits is far more common in the public sector than in private industry. In Canada 65 per cent of public employee pension plan members are covered by full or

TABLE 4.9

INDEXED
PENSION PLANS
BY MEMBERS COVERED,
CANADA, U.K., AND U.S., 1977 - 1980

| Automatic Indexation Provision | % of Members Covered | | |
|--|----------------------|------|------|
| | Canada | U.K. | U.S. |
| Full Indexing to Consumer Price Index | 21.1 | - | 5.9 |
| Partial Indexing | 10.4 | 60.0 | 7.3 |
| No Indexing | 68.5 | 40.0 | 86.8 |

Sources: Statistics Canada, Pension Plans in Canada, 1980 (Ottawa: Minister of Supply and Services Canada, 1982), Text Table XXV, p. 58; Government Actuary, Occupational Pension Schemes, 1979 - Sixth Survey (London: HMSO, 1981), Table 10.1, p. 56 and a U.S. survey by Hay-Huggins cited in Robert Myers, Indexation of Pension and Other Benefits (Homewood, Ill.: Pension Research Council, 1978), Table 13, p. 123.

partial indexing, compared with only 5 per cent of private sector plan members.⁶⁷ While only 7 per cent of U.S. private sector pension plans had automatic cost of living adjustments, the Federal civil service and half of all state and local retirement systems index post-retirement benefits.⁶⁸ Pensions in Britain were adjusted for inflation as early as 1803. This was subsequently formalized in the Pensions (Increase) Act 1920 covering the entire public sector, with the exception of nationalized industry.⁶⁹ In Britain in 1979, 85 per cent of all public sector pension plan members were covered by the Pension (Increase) Acts, while less than 25 per cent of private sector plan members had automatic indexation arrangements.⁷⁰

An uniquely British approach to inflation-proofing pension benefits was introduced under the Social Security Pensions Act 1975. Where an employer-based occupational pension scheme "contracts-out" of the state earnings-related pension system, government assumes the open-ended commitment to index (preserve) deferred and retirement pensions. Under the 1975 legislation, the state social security system assumed the cost of indexing the guaranteed minimum pension (GMP) for "contracted-out" plans, up to the level of the earnings-related state plan. Any pension benefit in

excess of the GMP is not indexed.⁷¹ What this means is that private corporations have externalized the cost of post-retirement indexation to the state, thereby creating a socialized cost of production borne by those who have remained in the earnings-related state plan and tax-paying workers not covered by an occupational pension scheme. The state inflation-proofing "contracted-out" schemes has resulted in a considerable tax loss to the central government.

The private sector in these countries has chosen to rely on discretionary periodic increases to retirement benefits as a way in which to limit the open-ended liability and cost associated with inflation-proofing. While the number of private sector occupational pension plans making periodic adjustments for inflation has increased in recent years these adjustments in most instances, however, have only offset a portion of the increase in the cost of living to pensioners. In Canada and Britain, for example, two-thirds of all private sector plans have made ad hoc payments covering at least 50 per cent of the increase in inflation,⁷² as compared with 31 per cent of plans in the U.S.⁷³ Periodic adjustments, as distinct from automatic indexation, provide only a limited and partially effective mechanism to protect the elderly's standard of living because they are discretionary. For a corporation, such payments are made from current operating expenditures, thus avoiding the advanced funding often associated with automatic indexation. Periodic adjustments are a known cost while automatic indexation represents an open-ended liability inasmuch as the actual rate of inflation is only known with certainty after the fact.

The private pension system's limited inflation-proofing of retirement benefits stands in marked contrast to that provided for under state social security retirement arrangements. Most state social security retirement systems index benefits. In 1975 a total of 33 countries had some form of benefit escalation, most using the price index, some the general

wage index and others the minimum wage.⁷⁴ Basic pension benefits provided by the state retirement system in Canada, Britain and the United States are all indexed to the Consumer (or Retail) Price Index.

Indexation to the Consumer Price Index (CPI or Retail Price Index) maintains the absolute purchasing power of state retirement benefits, and the elderly's standard of living, but it does not allow older people to share in any increase in national wealth. Therefore the relative value of these benefits is not protected and the elderly's standard of living declines in relation to the employed labour force. Indexation to the Consumer Price Index (CPI) maintains absolute purchasing power, but escalation to the average industrial wage (AIW) is necessary in order to maintain the elderly's relative economic position⁷⁵ compared with that of the active labour force. Politically, the indexation of social security retirement benefits to increases in the average industrial wage has the effect of linking the elderly's fortunes to those of the actively employed labour force. This tends to prevent the exacerbation of sectional interests between the actively employed and pensioners.

The International Labour Organization in assessing the indexation features of state social security retirement programs noted that

market economy countries have found that the impact of inflation and...remedies can differ between... pension systems operating under state social security programmes and usually financed on a pay-as-you-go basis and...occupational pensions... [which] commonly are funded schemes, so that they are vulnerable to a rate of inflation higher than the yield from investments.⁷⁶

This has meant that state retirement income systems have been used for the difficult parts of social security programming such as income adequacy and inflation-proofing, while the employer-based private pension system has played a residual role.

4.5.4 The Politics of Indexation. In Canada and Britain there has been a similar response by government to singling out the indexation features of state and public employee pension plans as a major issue to be dealt with as a result of the current international recession. The international social security crisis in advanced capitalist countries⁷⁷ is merely a reflection of the deeper underlying international economic crisis which has generated a similar neo-conservative monetarist response in terms of "crisis management".

The indexation of public employee pension arrangements has provoked a vitriolic attack by the corporate sector and the private pension industry in Canada and Britain. In Canada, as a result of pressure from the private pension industry and its lobby group, the National Citizens' Coalition, the federal Liberal government was forced in 1978 to commission an independent review of the indexed federal civil service pension.⁷⁸ Some four years later a major reduction in the civil service pension plan's indexation feature was implemented. A similar review was carried out in 1980 by Britain's Conservative government.⁷⁹ It remains a fact, however, that in most industrialized countries public employee pension plans remain indexed,⁸⁰ although they have been subjected to severe political pressures in recent years. The indexation of state social security retirement benefits has come under similar pressure. In Canada the federal Liberal government in 1982 temporarily limited the inflation-proofing of the flat-rate old age security pension (OAS), and Britain's Conservative government altered the formula indexing state retirement benefits. The Reagan administration in the U.S. has threatened at various times to reduce or eliminate the indexation feature of social security retirement benefits.

The private pension industry was forced to strike out against the example of state and public sector pension plan indexation because it served as a "demonstration effect" for private sector workers, as well as raising the

expectations of pensioners. In addition, the lack of private sector indexation forced a more general critical evaluation of employer-based pension plans and the private pension system. The private pension industry in these countries proceeded by deliberately cultivating the politics of envy between private and public sector workers. It did so in the hope of exacerbating the sectional differences between public and private sector employees, and to create a public backlash or "taxpayers revolt". The private sector's and pension industry's attack on inflation-proofing of retirement benefits has centered on cost considerations.

4.5.5 Micro vs. Macro Cost of Indexation. The indexation of post retirement pension income is a fundamental issue of public policy. Central to this debate are the cost estimates associated with indexation. There is a very real difference between the way in which actuaries and economists conceptualize the cost of employer-sponsored pension indexation. Some actuarial consultants have suggested that inflation-proofing has "staggering" cost implications,⁸¹ increasing the cost of the scheme by as much as 8 per cent for every 1 per cent of additional pension income.⁸² Economists tend to view pension indexation as having a neutral cost impact. The alternative cost estimates for the indexation of post-retirement benefits are a result of different types of analyses. Actuaries use a micro-economic analysis to arrive at their cost estimates, while economists bring a macro-economic perspective to the subject.

Actuaries who represent the interests of their corporate clients must of necessity be interested in the economic position of the firm, particularly as it relates to the advanced funding requirements of pension plans. There are, from an actuary's point of view, especially in the private sector, essentially two considerations. First, what, if any, liabilities will accrue to the pension plan and individual firm as a result of indexation? This is a crucial concern because in an inflationary environment, where the

real rate of return on investment to the pension fund is less than the inflation rate, the plan sponsor in the case of a defined benefit plan is required to make up the shortfall with additional contributions to guarantee the solvency of the plan. Second, from a micro-economic perspective, what are the effects of indexation costs on the cash flow and profit position of the firm? For the individual firm the short-term profit horizon forces it to view funding requirements as a paramount concern. It is the cash outlay today, rather than its relationship to macro-economic indicators in the future, which will affect its immediate profit position. It may be argued, however, that under conditions of monopoly capitalism associated with the giant corporation as described by Baran and Sweezy,⁸³ where the large firm is stable over the long run as a result oligopolistic market conditions and "profit-targeting", that the cost associated with indexation would be incorporated into targeted profit levels. Profit margins would then be adjusted accordingly to absorb the cost of pension indexation over the long-term.

Economists in general bring a macro-economic perspective to the issue. The cost associated with the indexation of pension benefits is affected at the macro-economic level over the long-term by increases in inflation, productivity and economic growth. The indexation of pension benefits at the macro-economic level involves a change in the allocation of resources rather than an increased allocation as such. The Economic Council of Canada summarized the major flaw of actuarial cost estimates for pension indexation by stating that,

some of the doom-and-gloom predictions about the repercussions of indexation derive from a failure to make proper comparisons; they project pensions in inflated (future) dollars while projecting GNP in terms of today's prices.

Preserving the real purchasing power of retirement pensions... will not "bankrupt" the Canadian economy. No more real resources are required for price-indexed pensions in an inflationary environment than for unindexed pensions in a non-inflationary environment.⁸⁴

Based on this macro-economic approach, some economists have estimated that over the next fifty years only an additional 0.5 per cent of gross national product (GNP) would be required to provide for the full indexation of all pension benefits.⁸⁵

In the real world, however, the macro-and-micro- economic levels are interrelated and cannot be isolated from one another. This is because,

the indexation of pension benefits does present problems for...firms; inflation pushes up benefit liabilities and pushes down the value of pension fund investment.

Industry looks at it from the viewpoint of individual pension plan sponsors, who fear that pension costs may...adversely affect their competitive position.⁸⁶

The different cost estimates for pension indexation resulting from a micro or macro-economic perspective offers a classic example of what Baran meant when he identified capitalism's primary contradiction as being between "micro-sense and macro-madness".⁸⁷ The operation of capitalist economies are interpenetrated by and interdependent on corporate behaviour. Conversely, corporate behaviour is bounded by the operation and imperatives of a capitalist economy. As a result there are structural limitations preventing an individual private sector firm from inflation-proofing retirement benefits.

4.5.6 The Limits to Indexation. In terms of the functioning of the private pension system and the indexation of retirement benefits, the micro-economics of the firm are related to the macro-economic structure of capitalism through financial markets. It is the operation of the capital market which imposes the ultimate external constraint on the individual corporation's ability to inflation-proof pension benefits at the micro-economic level.

The ability of private sector pension plans to provide inflation-proofing is related to the real rate of return that can be earned by

private pension funds. This exogenous constraint imposed by the broader macro-economy poses three portfolio management alternatives for the individual private sector pension plan sponsor with respect to indexing benefits. Those alternatives can be summarized, as follows

1. If the rate of return on investment adequately reflects the rate of inflation, private pension plans can afford to pay indexed pension benefits.
2. To the extent that the rate of return only partially reflects the rate of inflation, the pension fund can only afford to partially index pensions.
3. Where the rate of return on investment is zero or less than the rate of inflation, the pension fund cannot afford the indexation of pensions.

It is the real rate of return (the nominal rate of return adjusted for inflation) to the pension fund which serves as the primary structural limitation to the indexation of pension benefits for private sector corporations.

Over the past two decades pension fund investment performance has at best been inauspicious. In Canada between 1961 and 1975 the real average annual rate of return on investment for all trustee (non-insured) occupational pension plans was 0.72 per cent;⁸⁸ during the late 1970s pension funds were earning a real rate of return of -2.88 per cent.⁸⁹ British pension fund investment performance has fared little better. Between 1965 and 1975 the real annual rate of return averaged 0.6 per cent.⁹⁰ A 1980 survey bluntly stated that "there seems little doubt that practically every pension fund is now operating on a negative rate of return, and has been doing so for some years."⁹¹ For defined benefit pension plans in an inflationary environment, poor investment performance has resulted in shortfalls (unfunded liabilities and experience deficiencies)

requiring additional cash-flow contributions by corporate plan sponsors. Money purchase (defined contribution) pension plans have performed little better. The collapse of the equity market in the early 1970s meant that stocks were no longer the hedge against inflation they were once touted to be. Poor investment performance, where the real rate of return has been equal to or below the inflation rate, has simultaneously meant that the cost of pension arrangements has increased for corporate plan sponsors and has limited their ability to inflation-proof benefits for pensioners.

In order for occupational pension plans to insulate the real value of their members' benefits from inflation and remain actuarially sound would require that pension plans have "access to an asset whose real return is unaffected by inflation."⁹² Such an asset does not exist. The inability of the private pension system to protect the absolute and relative standard of living of pensioners is systemically limited and unsolvable as long as the indexation of post-retirement income remains tied to the real rate of return on investment, instead of wage or price movements.

4.6 Implications of the Private Pension System's Limitations

The universal limitations of the employer-based private pension system in Canada, Britain and the United States are limited coverage, inadequate vesting (preservation) standards, restricted portability (transferability) arrangements, and the lack of inflation-proofing for retirement benefits. These limitations are mutually interactive and explain the low proportion of income derived by the current elderly from the private pension system. This in turn necessitates the elderly's reliance upon the state pension system and tax-based "safety net" programs. The inadequacies of the occupational pension system will have important repercussions as well for the future elderly.

The universal limitations of the private pension system in Canada, Britain and the U.S. can be summarized as follows. Currently only 40 to 50

per cent of the total labour force is covered by an employer-sponsored occupational pension plan; 48 to 55 per cent of the paid labour force is covered by a private pension plan. The private pension system is characterized by limited, selective and uneven coverage reflecting the stratification of the work force in the capitalist labour market.⁹³

Pension plan coverage through the private pension system is related to and limited by the structure of the capitalist labour market, the organization of production, and the work process. There are significant variations with respect to employer-sponsored pension plan coverage according to income, occupation, industry, size of enterprise, labour force attachment and sex.⁹⁴ Coverage is highly concentrated in large enterprises and bureaucratic organizations and is unevenly distributed between the private and public sectors. Occupational pension plan coverage is particularly limited in the private sector.

Vesting requirements are the crucial link between occupational pension plan coverage and actual receipt of pension benefits at retirement. Vesting establishes an employee's irrevocable right to a deferred pension upon termination at retirement age. Inadequate vesting standards fulfill a number of economic and social functions including the reduction of pension and labour costs, and historically have served to reinforce labour discipline. The best available information suggests that inadequate vesting requirements, compounded by labour market mobility, have resulted in only 10 to 54 per cent of occupational pension plan members actually having received pension benefits upon retirement. This would indicate that there is a low "take-up" rate for employer-sponsored pension benefits by plan members, resulting in a considerable amount of "leakage" from the private pension system in the form of lost retirement income for those covered. Current vesting standards, particularly in Canada and the United States, do not take into account the reality of high labour market mobility. Vesting

provisions in the U.S. and U.K., prior to legislative intervention in the mid-1970s, were especially inadequate with 66 and 90 per cent of all employer-based pension plans respectively having no vesting requirements whatsoever.

The structural and technical problems associated with vesting standards and limited portability (transferability) arrangements, and the interaction between them, has resulted in lost benefits from the private pension system. The systemic barriers to adequate vesting standards and portability arrangements are intrinsic to the capitalist labour market with its attendant mobility and the "anarchy of production" between competing units of capital in product markets. Improved vesting (preservation) standards by themselves, without some type of central registry to facilitate portability (transferability) between employers, are insufficient due to the problems associated with deferred vested pensions on termination. Conversely, resolution of the portability problem would, however, solve the vesting issue because it would maintain the necessary continuity of service to establish entitlement to pension benefits. Full portability of pension entitlements is difficult to achieve, however, because of technical problems and the systemic barriers associated with the capitalist labour and product markets. As a result of the interaction between limited occupational pension plan coverage, inadequate vesting standards and portability arrangements, only 20 to 38 per cent of the elderly are currently receiving full or partial retirement benefits from the private pension system in these countries.⁹⁵

Inflation significantly erodes occupational pension benefits in the post-retirement period as well as the value of deferred pensions. Currently only 6 to 21 per cent of all occupational pension plan members have their benefits automatically indexed to the full increase in inflation. Indexation features are especially deficient in the private sector, despite periodic

discretionary adjustments. In the private sector the automatic indexation of pension benefits represent an open-ended cost and liability to the corporate plan sponsor. The ability of private sector plan sponsors to inflation-proof deferred and retirement pensions is limited by the micro-economics of the firm and the relationship between the real rate of return on investment to the pension fund and the inflation rate externally imposed by the macro-economy.

The universal limitations of the private pension system are central to the political economy of pensions. Based on the preceding analysis a number of implications can be identified. First, the inadequacies of occupational pension plans explain the low proportion of income received by the current elderly from the private pension system. A corollary is that the deficiencies of the private pension system, in conjunction with the underdevelopment of the state retirement income system, have resulted in the economic immiseration and social marginalization of the elderly.

Second, the limitations of employer-sponsored pension plans will have a major impact upon the large "baby boom" cohort of future elderly. To the extent that existent private pension arrangements are incapable of generating adequate retirement income for the total labour force it will mean that the future elderly will have to rely on the state pension system. The limitations of employer-based pension plans will not become apparent for another 30 to 50 years until a new and larger generation of elderly poor is created due to the aging of the population. Because of demographic aging, reliance upon the state retirement system may produce intergenerational and intersectoral fiscal tensions.

A third, and important, implication is that as a result of these universal limitations the private pension system is not an efficient and cost-effective delivery system for retirement income. The disadvantages of the private pension system must be compared with the advantages of the

public pension system. In Canada, Britain and the United States the state retirement income system's program features include: universal coverage for all wage and salary earners, immediate vesting, total portability of pension credits and the full indexation of benefits to the consumer price index.

Fourth, under normal circumstances it requires 30 to 40 years for a pension system to mature, therefore, reform of both the public and private pension systems is required in the near term so as to be synchronized with the retirement of the "baby boom" generation. The failure to undertake pension reform in the short-term will result in limiting the available policy options in the long run. Reform of the private and/or state pension systems will impose additional costs upon the corporate sector and active labour force. The cost of pension reform, given existent socio-economic arrangements, may be expected to generate sectoral and sectional strains between and among the various pension actors - the elderly, state, corporate sector and unionized labour force - as each pursues its structurally determined interests.

Fifth and last, the limitations of the private pension system have generated the politics of pension reform. This has evoked a highly polarized public policy debate with respect to the inadequacies of the private pension system. Reform of the employer-based occupational pension system may to some extent redress the current deficiencies identified in this chapter as they affect the future elderly, however, this will depend upon the realpolitik and success of pension reform in the short-term. Unless resolved in the near-term, the pension issue will become more politically volatile as the structural pressures increase and converge in the future.

The elements of the political economy of pensions identified and analyzed thus far have included the impoverishment of the elderly, the economics of an aging population, and the limitations of the private pension

system. The universal limitations of employer-sponsored occupational pension plans affect the entire labour force. The specific limitations of the private pension system under conditions of collective bargaining, however, are of special importance and concern due to the impact upon cost, power and equity issues which affect the stability of the industrial relations system.

CHAPTER 5

THE LIMITATIONS OF THE PRIVATE PENSION SYSTEM UNDER CONDITIONS OF COLLECTIVE BARGAINING

"Social security is not...marginal to the main interests of the union...but is one of their most important fields of action."

Tony Lynes

5.1 Introduction

The universal limitations of the private pension system - limited coverage, inadequate vesting and transferability provisions and the lack of inflation-proofing - have been examined. In this chapter the limitations of the private pension system as they manifest themselves under conditions of collective bargaining are identified and investigated. Previously, the economic condition of the elderly, population aging and the general inadequacies of employer-based occupational pension plans were described as important elements of the political economy of pensions. Here the relationship between the industrial relations system and the political economy of pensions is established and analyzed. The central theme developed in this chapter is that the problems associated with the private pension system in Britain, Canada and the United States under conditions of collective bargaining will serve to heighten tensions in an already strained industrial relations system. The pension problem will have a destabilizing influence upon collective bargaining arrangements in the future because it impacts upon cost, power and equity issues. These considerations are central to any industrial relations system.

The specific problems associated with the operation of the private employer-based occupational pension system under conditions of collective

bargaining manifest themselves through issues which structurally impact upon and undermine the stability of the industrial relations system. These factors are identified as follows: first, increasing total pension costs, especially those associated with the occupational pension system; second, a set of power related issues, particularly the absence of a bargaining agent's legal right to negotiate pensions, receive pension plan information and bargain post-retirement benefits; third, an equity issue arising from the lack of a mandatory benefit adjudication (grievance and arbitration) procedure to resolve disputes between pension plan members or beneficiaries and trustees; and fourth, the co-management of pensions under collective bargaining as a catalyst or "flash point" within the industrial relations system because issues related to control over pension capital, cost and equity converge into a "critical mass" in term of power relationships.

5.2 Historical Background

"The fringe benefit movement [was] basically a management movement," according to Allen, and "unions took what they could get and made the best of it."¹ Prior to World War II the form and limits of welfare benefits were decided upon by management without negotiation or consultation with trade unions. Consequently, unions in North America, for ideological and organizational reasons, had a strong antipathy towards employer-sponsored welfare benefits and occupational pension plans.² Between 1870 and 1920, business unionism in North America established its hegemony, with the resultant bureaucratization of the labour movement.³ The ascendancy of industrial unionism in the 1940s witnessed the rise of labour leaders as the "new men of power".⁴ The expansion of the modern union as a welfare institution in the post-war period was a manifestation of this "social unionism" and increased the internal

rationalization and specialization of union functions as a response to a more complex bargaining environment.⁵

From an historical perspective the introduction of employer sponsored welfare benefits served a series of interrelated ideological, organizational and labour market functions for the corporate sector. While there was no single historical cause for the introduction of employee benefits, certain common lines of development can be traced. Employee benefit programs served a multiplicity of purposes, including attracting a labour supply and reducing labour turnover, serving as an investment in human capital by improving the morale of the labour force, improving productivity and efficiency by rationalizing the human element in the work process, promoting loyalty to the firm, preventing or forestalling unionization, preventing government intervention with respect to compulsory social insurance, maximizing the tax position of certain benefits by increasing non-taxable compensation to employees, minimizing the cost per unit of benefit through group arrangements thereby compensating for imperfect individual knowledge of insurance markets, and creating a favourable corporate public relations image.

Pensions assisted in promoting these general corporate objectives. Occupational pension plans were specifically introduced to remove elderly persons, who were generally viewed as "inefficient", from the production processes of modern industry and to eliminate patronage in the civil service; open channels of promotion for younger employees; compensate employers for recruitment and training costs should a worker terminate; and served as a social control function by making receipt of pension benefits contingent upon "good and faithful service". Historically, employers attempted to maximize their control over welfare plans by making such payments discretionary. Conversely, workers and unions have attempted to minimize management control, viewing such benefits as being earned.

Employee benefits came to the fore as a subject of collective bargaining after World War II for a number of reasons. In the first instance, during World War II the "fringe benefit movement" was part of the wartime wage control program in Britain, Canada and the U.S. Employers were allowed, and encouraged, to substitute employee benefits such as paid vacations and occupational pensions for direct monetary compensation. Second, fringe benefits were permitted income tax deductibility status as a legitimate business expense. This served as an inducement to introduce employee benefit plans. Third, the 1949 U.S. National Labour Relations Board Inland Steel decision, and subsequent court decisions, deemed welfare and pension plans to be wages and therefore an appropriate and mandatory subject for collective bargaining.⁶ This served as a demonstration effect for Canadian employers who were often unionized by the same American based "international" union. Fourth, in the immediate post-war rounds of negotiations in the U.S., labour unions for the first time spearheaded a drive to negotiate health, welfare and retirement programs. Unions such as the United Mine Workers of America (UMWA), the United Auto Workers (UAW) and the United Steel Workers of America (USWA) became innovators in the field. Union negotiated employee benefit programs and occupational pension plans became new and important issues for collective bargaining. "The pressure for extending the range of subjects dealt with by collective agreements" in the post-war period, according to Flanders, came "almost exclusively from the trade unions."⁷ Union negotiated employee benefit or welfare plans have generally evolved, according to Barbarino and Allen, in three phases: recognition of need and introduction of a program; improved benefit levels; and a broadening of coverage and eligibility.

The expansion of the employee benefit package in the post-war period has significant implications for social policy and labour organizations. In the first instance, the development of the negotiated

employee benefit package has created a dual allocative mechanism for the provision of income security against universal and employment-related risks. An underdeveloped "distanced" social security system exists for the majority of wage and salary earners at the state level, while a "non-distanced" mechanism - the negotiated employee benefit package - has evolved for unionized workers, particularly in the oligopolistic sectors, at the plant or industry level.⁸ The modern union as a welfare institution therefore engages in a "micro-social function"⁹ as an organization on behalf of its membership at the shop floor level through collective bargaining, while the labour confederation or national union nominally serves a "macro-social function" at the state level on behalf of all workers based on its lobbying and political activities.¹⁰

The "non-distanced" employee benefit package introduced and expanded through collective bargaining at the plant or industry level is a response to the inadequacies of the "distanced" social security system at the state level. Trade unions under capitalism in general "have largely achieved at the level of the firm... for their own members social policies they have failed to achieve for all workers through political struggle at the level of the state."¹¹ As one pragmatic American trade union leader put it, "unions decided that they would attempt through bargaining to win for their members what they were unable to convince government to provide for all its citizens."¹² Under conditions of collective bargaining, particularly in North America, employee benefit plans now constitute a "system of private social security"¹³ or a "corporate social security system",¹⁴ which is either a substitute for or a supplement to the state social security system. From a social policy perspective, however, the distributional impact of the dual public-private social security system generates and reinforces sectional interests between the unionized and non-unionized labour force as a result of the uneven allocation and level of benefits.

5.3 Benefit Maximization vs. Cost Minimization: Conflicting Imperatives

Workers have developed a collective "security" or "protectivism" response, to use Barbash's formulation, as a reaction to the modern corporation's "cost discipline" behaviour.¹⁵ For labour organizations this "security" response has included the regulation of conditions of employment such as wages, as well as income maintenance protection against the universal and employment-related risks of sickness, disability, maternity, unemployment, death and old age. Modern unions with their organizational imperatives¹⁶ act as a welfare institution¹⁷ fulfilling a social security function through collective bargaining to satisfy their membership's need for economic security. By maximizing their social security function, unions are in opposition to the cost minimization/profit maximization behaviour of the corporate sector. The expansion of employee benefit programs in the post-war period has both broadened the scope of collective bargaining and increased the importance of the modern union's social security function. Unions in the future will be forced to engage in intensified distributive and intra-organizational bargaining¹⁸ with respect to pension related issues.

The term "fringe benefit", broadly defined, now includes negotiated as well as voluntary employee benefit programs to which an employer contributes on behalf of an employee; in addition, the cost of any legally required payment made by an employer is also included as a "fringe" benefit cost. The older term "fringe benefit", implying a gratuity based on "good and faithful service", has now been replaced by the more modern designations "supplementary wage provision", "related wage practices", "social charges", "welfare plans" or "employee benefit plans", suggesting an earned benefit based on the deferred wage doctrine. The term "employee benefit plan" is used here. The more contemporary terms signify that employee benefit plans are no longer "fringe", but are now central to the collective bargaining process in terms of complexity, cost and importance.

In recent years under conditions of collective bargaining, as a result of the expansion of the employee benefit package and the associated cost, many sophisticated employers have adopted a total compensation approach to the negotiation of labour costs. This has meant that "the pattern of package deals are based on the total value of labour remuneration, wages and fringes having become interchangeable costs."¹⁹ As a result of the total compensation approach to labour costs, where total compensation is equal to employee benefits plus wages, unions have been able to exert a positive influence on the level (amount) and distribution (mix) of labour compensation between salary and employee benefits, and within the employee benefit package.²⁰ Employee benefit and occupational pension plans under conditions of collective bargaining are now incorporated into a firm's wage and salary structure and its long-run profit prospective. The cost associated with employee benefit programs, including employer-sponsored occupational pension plans, has increased dramatically in the past thirty years under conditions of collective bargaining.

5.4 The Cost of Employee Benefits

A number of significant characteristics and relationships are associated with employee benefits. These are summarized from the technical literature as follows.²¹ The incidence and cost of employee benefit plans is higher in capital intensive, oligopolistic sectors of the economy than in the labour intensive, competitive sector; the cost and frequency of employee benefits is related to firm size and are positively related to wage and salary levels; there is a direct correlation between the profitability of an industry and its expenditure on employee benefits; the higher the profit per employee the higher the employee benefit expenditure per employee; the ratio of employee benefits to total compensation is greater in unionized firms than in non-unionized firms; the stronger a union

the greater the expenditure by a firm on employee benefits the skilled-nonskilled total compensation differential exceeds the skilled-nonskilled wage differential; and the decertification of unions (in the U.S.) is inversely related to the ratio of employee benefits to compensation in unionized firms. The evidence regarding the level and distribution of employee benefits generally confirms the dual labour market theory which postulates that there is a "primary" labour market comprised of high paid, unionized workers in capital intensive, oligopolistic industries and a "secondary" labour market characterized by low paid, non-unionized workers in labour intensive, competitive sectors.

In order to determine the dramatic acceleration of employee benefit plan costs as a percentage of employer's gross payroll in Canada, Britain and the U.S. an historical time-series has been constructed for the period between 1953 and 1978. This information is presented in Table 5.1. The data for the United States and Canada are fully comparable, covering employees in all industries. In Britain, however, where "the cost of benefits to employers...are hard to assess, since most firms do not...cost their benefit schemes",²² the time-series was constructed from disparate sources for the manufacturing sector (manual and clerical). Therefore, the comparative trends outlined here must be viewed only as an approximation.

In the United States, Canada and Britain the cost associated with employee benefit plans increased from an average 19 per cent of gross payroll in 1953 to 34 per cent in 1978. In general, one-third of gross payroll expenditure is now spent on employee benefits. The proportion of payroll devoted to employee benefits is expected to increase well into the 1980s.²³ Between 1953 and 1978 the expenditure on employee benefits as a proportion of gross payroll increased by 73 per cent in the U.S., 115 per cent in Canada, and by 170 per cent in Britain. The absolute annual per capita expenditure on employee benefits between 1957 and 1978 increased in

TABLE 5.1

EMPLOYEE BENEFIT PROGRAMS
AS A PERCENTAGE OF GROSS PAYROLL,
CANADA, U.S., AND U.K.,
SELECTED YEARS, 1953 TO 1978

| Year | Canada | U.S. ² | U.K. |
|-----------------------------------|-------------------|-------------------|--|
| 1953 | 15.1 ¹ | 21.6 (E) | 10 ³ |
| 1957 | 16.4 | 23.4 | - |
| 1959 | 22.2 | 24.5 | 14.4 ⁴ |
| 1961 | 24.3 | 25.8 | - |
| 1963 | 26.2 | 26.8 | - |
| 1965 | 25.2 | 27.0 | - |
| 1967 | 27.8 | 29.0 | 13.6 ⁵ |
| 1969 | 29.1 | 30.8 | - |
| 1971 | 29.0 | 32.8 | 21.1 |
| 1973 | 28.1 | 34.8 | 23.7 (26.5 ^{6,7}) |
| 1975/76 | 31.1 | 37.4 | 26.4 ⁵ |
| 1977/78 | 32.4 | 40.5 | 27.0 ⁶ (36.0 ^{6,7}) |
| Percentage Increase, 1953-1977/78 | 114.6% | 73.1% | 170-260% |

- Notes: 1. Between 1953/54 and 1969/70 includes the Old Age Security Tax (O.A.S.T) which was eliminated in 1971 and put on a general revenue basis after that date.
2. The data in this time-series is based on an on-going sub-sample of 159 large firms from the U.S. Chamber of Commerce's survey of 858 companies. Because of sample bias this has resulted in a somewhat higher figure being reported here than is the case with the other information in the Chamber of Commerce's survey.
3. 1955 for five S.I.C. manufacturing industries.
4. For manual workers only.
5. For all manufacturing industries.
6. Unweighted average for manual and non-manual employees.
7. There would seem to be a reporting discrepancy between the lower figure cited in the popularized booklet published by the Royal Commission on the Distribution of Income and Wealth, An A to Z of Income and Wealth (London: HMSO, 1980), Table L, p. 16 and the higher figure based on the empirical data found in Lord Diamond, Royal Commission on the Distribution of Income and Wealth. Report No. 8 Fifth report on the Standing Reference (London: HMSO, October 1979), Figure 9.2, p. 131.

Sources: Thorne Riddell Associates Ltd., Employee Benefits Costs in Canada 1977/78 (Toronto: Thorne Riddell Associates Ltd., 1978), Table 3, pp. 12-13; Chamber of Commerce of the United States, Employee Benefits 1978 (Washington, D.C.: Chamber of Commerce, 1978) Table 19, p. 27. For Britain this time-series was constructed from the Ministry of Labour Gazette, August 1957, pp. 277-280; G.L. Reid and James Bates, "The Cost of Fringe Benefits for Manual Workers in British Industry", British Journal of Industrial Relations, Vol. I, No. 3 (1963), Table 7, p. 5; R.I. Hawkesworth, "Fringe Benefits in British Industry", British Journal of Industrial Relations, Vol. XV, No. 3 (1977), Table 1, p. 397; Jane Moonman, The Effectiveness of Fringe Benefits in Industry (Epping Essex: Gower Press, 1973); Lord Diamond, Royal Commission on the Distribution of Income and Wealth. Report No. 8 Fifth report on the Standing Reference (London: HMSO, October 1979), Figure 9.2, p. 131; The Royal Commission on the Distribution of Income and Wealth, An A to Z of Income and Wealth (London: HMSO, 1980), Table L, p. 16 and "Labour Costs in 1975", Department of Labour Gazette, September 1977, Table 6, pp. 9-10.

the U.S. by 455 per cent and by 616 per cent in Canada. According to Statistics Canada, in 1978, total expenditure for welfare and benefit plans by unionized firms was 94 per cent greater than for non-union employers.²⁴ This increased expenditure reflects both a broadening and a deepening of the employee benefit package, particularly under conditions of collective bargaining. Today employee benefit plans are no longer "fringe", they are big money.

5.4.1 Distributive Bargaining and Benefit Costs. For labour unions the expansion of their "micro-social" welfare function has generated tensions within the framework of distributive and intra-organizational bargaining. Increasing employee benefit costs affect the level and distribution of total compensation between salary and benefits. Distributive bargaining is central to the labour-management power relationship in capitalist societies.

In the United States and Canada between 1959 and 1978 employee benefit costs were 2.2 and 1.3 times greater respectively than the increase in the average industrial wage (AIW). Benefit costs have increased at a faster rate than wages. It is not unreasonable to expect that management will resist any future expansion of employee benefit costs in order to contain total labour costs, particularly in periods of slow economic growth.

A consequence of distributive bargaining is that while employee benefits result in an increased total compensation package for workers, this often comes at the expense of a corresponding reduction in direct monetary income. The expansion of the employee benefit package relatively reduces the current consumption (take-home pay) of workers, regardless of whether these are contributory or non-contributory programs. This means that there is still pressure on wages from workers, despite the utility of employee benefit plans and the increased value of the total compensation package. This trade-off is exacerbated in periods of inflation and slow economic

growth. Therefore, there is the prospect of continued pressure from workers and unions for an expansion of the employee benefit package and wage increases. In the future the welfare maximization behaviour of unions will increasingly conflict with the cost minimization imperative of the corporate sector. This will sharpen the already inherent tensions associated with distributive bargaining.

5.4.2 Intra-Organizational Bargaining and Benefit Costs. The increasing strain on labour-management relations induced by rising employee benefit and pension costs is compounded by the modern union's intra-organizational (internal) bargaining and its own organizational imperatives. Internal bargaining refers to the reconciliation of diverse sectional interests, or competing claims, within the labour force represented by the union: skilled and less skilled, married and single, men and women, young and old, employed and retired, and so forth. The union as a welfare institution must engage in intra-organizational bargaining regarding the cost of employee benefit plans as it affects two crucial issues: first, the level and distribution of total compensation between salary and benefit plans; and second, the mix of programs within the employee benefit package. These issues have a different affect upon the various segments of a union's diversified membership, depending upon economic status, demographic characteristics (such as age, sex and marital status) and the state of the economy.

The union as an organization mediates the conflicting sectional claims of its membership through internal bargaining. Distributionally, for example, young workers have a propensity to place an emphasis on direct monetary compensation, while older workers place a priority on deferred compensation such as improved pensions. Women tend to assign a priority to wage increases rather than negotiating employee benefits. Married men generally favor a balance between direct and indirect compensation. The

mix within the employee benefit package is also subject to competing claims and intra-organizational bargaining. For example, young married workers (in North America) are usually interested in life, health and disability insurance, whereas older workers are concerned about pensions; older workers, women and single men place a low priority on dental plans, while married men approve of their implementation. It falls to the union to resolve these internal distributional issues between the sectional interests. Nevertheless unions have placed employee benefit programs high on their list of bargaining priorities in recent years.

5.4.3 Union's Organizational Imperatives and Benefit Plans. The final consideration bringing unions into conflict with the cost minimization behaviour of the private sector with respect to the pension issue are the institutional imperatives of unions as organizations. Unions like any other organization have their own goals and imperatives. The institutional imperatives of unions include organizational survival; growth; sovereignty; job regulation; prestige; and maximization of membership, average wage rates, the wage bill, employment and their membership's social welfare. The expansion of employee benefits, including occupational pension plans, under conditions of collective bargaining in the post-war period has served to promote, either directly or indirectly, a number of these purposes.

Nineteenth century unions in Britain and the United States realized that friendly benefits and union-sponsored welfare programs served the purpose of stabilizing the labour organization by attracting and holding members by promoting a sense of loyalty to the union.²⁵ The negotiation of welfare and pension plans by industrial unions in North America after World War II served a similar purpose. Innovative employee benefit and welfare programs served to enhance the prestige of industrial unions with the public. Benefit plans advanced the welfare of the membership and were identified with the union. The negotiation of costly and complex welfare

and pension plans furthered the union's organizational imperative for institutional survival and growth. The negotiation of these welfare programs symbolized the reluctant acceptance by management of the permanence of the union and a commitment to a long-term collective bargaining relationship. In a hostile environment this provided unions with institutional security.

Collectively bargained health and welfare plans have also served as an impetus for bureaucratization and the specialization of internal union functions. A number of major American unions - for example, the United Mine Workers, United Auto Workers, United Steel Workers and Teamsters - established social security or welfare departments and employed the necessary technical staff. In Britain in the early 1970s, with the renewed interest in occupational pension schemes, the Transport and General Workers' Union and the General and Municipal Workers' Union pursued a similar course. In addition, negotiated or union-sponsored welfare plans have enhanced the power and prestige of the union leader. The technicalities of employee benefit and pension plan arrangements have forced the union leader "to acquire specialized knowledge and skills" with the result that "his power has been increased by the greater complexity of [the] problems which have to be resolved in determining union policy."²⁶ The union leader claims credit for "delivering the goods" to "his" members.

In the most fundamental sense, under conditions of collective bargaining, unions as organizations have acquired an institutional vested interest in the maintenance and expansion of negotiated welfare and pension arrangements. This is suggested by the significantly increased proportion of gross payroll devoted to employee benefits and the greater cost associated with such arrangements under conditions of collective bargaining in the post-war period. The modern union's organizational imperatives, coupled with its benefit maximization approach to distributive bargaining, conflicts

with the cost minimization behaviour of the corporate sector. The collective bargaining relationship as it relates to pension arrangements will become more strained as the underlying cost pressures increase.

5.5 The Cost of Pensions

Pension arrangements represent the single most important non-wage expenditure within the total compensation package and are the largest monetary item within the employee benefit package.²⁷ The cost associated with the employer-sponsored occupational pension system has increased considerably in the past thirty years and has exceeded the growth of wages. The total cost of pension arrangements and those associated with occupational pension plans under conditions of collective bargaining are significantly greater than for non-union firms.

A number of factors, including inflation, poor investment performance, actuarial deficiencies and unfunded liabilities, the aging of the labour force, slower labour force growth and the cost of pension reform will all contribute to escalating the cost per unit of pension benefit and increasing the cost of employer-sponsored occupational pension plans as a proportion of gross payroll. In addition, the cost of state pension arrangements over the long term will increase as a result of population aging and improved benefit levels. Rising total pension costs will require increased corporate and individual contributions. The increasing cost associated with the private occupational pension system will necessitate increased contributions by plan sponsors to maintain the solvency of the plan, as well as higher contributions by workers. This will result in higher labour costs for employers and a reduction in employee's current consumption, with corresponding pressure on wages by workers to maintain their standard of living.

Because of the strong correlation between unionization and occupational pension plan coverage, with unionized workers being the

largest and most concentrated group covered by the private pension system, unions may be in a position to resist higher pension contributions and a reduction in their member's standard of living. Similarly, it may be expected that the corporate sector will resist the imposition of increased pension costs in order to protect profit margins. A potential exists that unions will be brought into conflict with the corporate sector, the state, and possibly their own members, over the issue of pension costs. The pension issue in the long run may therefore have a destabilizing impact on collective bargaining relationships and the industrial relations system.

5.5.1 The Preeminence of Pension Costs. Total pension costs - public and private - are the largest component within the employee benefit package, and are the most costly non-wage related expenditure as a proportion of gross payroll.²⁸ Table 5.2 outlines total pension costs as a proportion of gross payroll and in relation to total employee benefit costs. Employer contributions to the state and occupational pension plans when considered as separate items within the total compensation package lag behind expenditures on vacations in Canada and Britain and rank first in the

TABLE 5.2
TOTAL PENSION COSTS
AS A PERCENTAGE OF GROSS PAYROLL
AND IN RELATION TO TOTAL EMPLOYEE BENEFIT COSTS,
BRITAIN, U.S., AND CANADA, 1975 - 1980

| Country | Pension Costs as a % of Gross Payroll | | | Employee Benefits as a % of Gross Payroll | Pension Costs as a % of Employee Benefit Costs |
|----------------------|--|-------------------------|-------------------------|--|---|
| | Occupational | + State | = Total | | |
| Britain ³ | 4.7 | 8.1 ¹ | 12.8 | 27.0 | 47.0 |
| U.S. ⁴ | 5.6 | 5.6 | 11.2 | 40.5 | 27.7 |
| Canada ⁵ | 5.2 | 1.2 | 6.4 | 33.1 | 19.3 |
| | | (2.7-3.3 ²) | (7.9-8.5 ²) | | (24-26 ²) |

Notes: 1. National Insurance, inclusive of all programs.
2. Estimated on the basis of an increase to the required full-cost contribution rate, with no corresponding decline in contributions to occupational pension plans.
3. 1975; 4. 1978; 5. 1979/80.

Sources: Department of Labour Gazette, September, 1977, Table 6, p. 10; Chamber of Commerce, Employee Benefits 1978 (Washington, D.C.: Chamber of Commerce, 1978), Table 22, p. 31 and Thorne, Stevenson and Kellogg, Employee Benefit Plans in Canada, 1979/80 (Toronto: Thorne, Stevenson and Kellogg, 1980), Table 7, p. 22.

United States. However, when total pension costs (public plus private plans) are treated as one component, they assume the preeminent position as the leading non-wage gross payroll expenditure and the largest component within the employee benefit package. Total pension costs as a percentage of gross payroll were 6.4 per cent in Canada, 11.2 per cent in the U.S. and nearly 13 per cent in Britain. Total pension costs therefore represented 19 per cent of all employee benefit costs in Canada, 28 per cent in the U.S., and 47 per cent in Britain.

Total pension costs, as these data suggest, are an important component within the total compensation package and have a significant impact on an employer's gross payroll expenditure. This is particularly the case in Britain and the United States. The relatively modest order of magnitude in Canada is attributable to the inordinately low level of contributions to the state pension plan by international standards. Any increase in either state or occupational pension plan contributions will result in an increase in total pension costs. An increase in total pension costs in excess of wage growth will, in turn, result in the expansion of the employee benefit package in relation to total compensation or gross payroll. Supplementary labour costs (employee benefits including pensions) will therefore increase relative to direct monetary compensation. This squarely poses the issue of distributive bargaining between labour and management and intra-organizational bargaining among sectional interests within the union.

The cost of the employer-based occupational pension system is the primary component of total pension costs. The information in Table 5.2 indicates that occupational pension scheme costs represented 36 per cent of total pension costs in the U.K., 50 per cent in the U.S., and 81 per cent in Canada. Occupational pension plan costs have generally increased in the post-war period. Employer-sponsored occupational pension plan costs as a

percentage of gross payroll and annual expenditure per employee are outlined in Table 5.3 for Canada where complete information is available. Between 1953 and 1980 the annual per capita expenditure by employers for occupational pension plans increased by nearly 611 per cent. In this same period occupational pension plan costs as a percentage of gross payroll increased by 30 per cent. Occupational pension plan costs exceeded wage growth by 77 per cent.

TABLE 5.3
EMPLOYER OCCUPATIONAL
PENSION PLAN COSTS, CANADA, 1953-1980

| Year | Annual Cost ¹ | |
|---|--------------------------|-----------------|
| | % of Gross Payroll | \$ Per Employee |
| 1953 | 4.0% | \$137 |
| 1957 | 3.9 | 167 |
| 1959 | 3.6 | 182 |
| 1961 | 4.3 | 216 |
| 1963 | 4.4 | 230 |
| 1965 | 3.6 | 191 |
| 1967 | 3.2 | 210 |
| 1969 | 3.3 | 242 |
| 1971 | 3.8 | 332 |
| 1973 | 3.8 | 392 |
| 1975/76 | 4.2 | 552 |
| 1977/78 | 4.6 | 750 |
| 1979/80 | 5.2 | 974 |
| <hr/> | | |
| % Increase in Pension Costs, 1953-1979/80 | 30.0 | 610.9 |

Note: 1. Employer contributions including payments towards unfunded liabilities and experience deficiencies where applicable.

Source: Information supplied courtesy of Thorne, Stevenson and Kellogg, Employee Benefit Costs in Canada (Toronto: Thorne, Stevenson & Kellogg, various years).

In Canada between 1953 and 1980 a number of important relationships have been established within the total compensation package, namely, that the rate of growth in annual per capita occupational pension plan costs has exceeded the increase in wages and total compensation; however, the rate of growth for total employee benefit package expenditures, and for benefits net of pensions, has been greater than the increase in occupational pension plan costs.²⁹ The broadening and

deepening of total employee benefit expenditures relative to pensions explains the deceptively moderate increase in occupational pension plan cost as a percentage of gross payroll, despite the substantial increase in per capita cost. There are good reasons to believe, however, that total pension costs will increase in the future necessitating higher contributions from both employers and employees.

5.5.2 The Escalation of Future Pension Costs. There are at least six reasons why the cost of occupational pension plans will escalate in the future. First, inflation over the past decade has had an adverse impact on the operation of the private pension system and will affect future pension costs. In Canada, for example, per capita expenditure on occupational pension plans by employers nearly tripled between 1971 and 1980; between 1975 and 1980 the cost roughly doubled (Table 5.3). In Britain company outlay on contributory pension schemes jumped from 7.7 to 12.0 per cent of payroll between 1975 and 1978.³⁰ Inflation increases the salary base upon which retirement benefits are calculated. This impact is particularly severe in the case of final average earnings pension plans, resulting in what is termed the "linebacker" or "three martini effect", necessitating increased company contributions. An inflation rate in excess of conservative actuarial salary and rate of return assumptions plays havoc with pension plan funding and stable contribution rates.

Second, poor pension fund investment performance, compounded in part by inflation, has required additional contributions by corporate plan sponsors to cover shortfalls in the plan. The real average annual rate of return on investment for trustee pension plans in Canada averaged 0.72 per cent between 1961 and 1975, and was running at -2.88 per cent in the late 1970s.³ In Britain the average annual real rate of return on pension funds between 1965 and 1975 was 0.6 per cent.²² Pension fund investment performance generally lags the stock market.³³ This situation is

compounded by inflation which makes a significant positive rate of return on investment to the pension plan more difficult to achieve. Poor pension fund investment performance will accentuate the pressures for higher occupational pension plan contributions.

A third consideration in the post-war period, particularly under conditions of collective bargaining, is the considerable improvement in the level and types of benefits provided for under employer-sponsored occupational pension plans. The inclusion of past service credits, improved early retirement provisions such as "30 and out", the upgrading from a career to a final average earnings retirement benefit formula and ad hoc post-retirement inflation-proofing are examples of costly pension plan improvements. In Canada employer contributions to pension plans for current service benefits increased by 353 percent between 1969 and 1979, reflecting rising wage rates, improved benefits and more rigorous funding requirements.³⁴ In Britain, "more than half of those schemes which increased ordinary contributions" between 1975 and 1977 "did so because of an increase in benefit levels" while nearly "40% of schemes which paid special contributions did so as a provision for pension increases."³⁵

A fourth, and important factor, is the dramatic increase in actuarial (experience) deficiencies and unfunded liabilities for occupational pension plans as a result of rising salaries, poor investment performance, improved benefits and the divergence between conservative actuarial wage and interest (investment) assumptions and actual experience. This has resulted in many pension plans having liabilities which exceed the assets to pay for accrued pension benefits, especially in the United States and to a lesser extent in Canada. This requires substantial additional contributions from corporate plan sponsors to cover the shortfall to maintain the solvency of the pension scheme. Actuarial deficiencies and unfunded liabilities are amortized - that is, carried forward and written off over 15 years in Canada

and usually 40 years in the U.S. - and hence by definition, are a long-term problem. For private sector plan sponsors actuarial deficiencies and unfunded liabilities are particularly acute because they adversely affect a corporation's cash flow position and serve as a drag on future profits.

In Canada this situation, while not as severe as that experienced in the United States, is nevertheless of considerable concern. In 1977 nearly 70 per cent of all major corporate pension plans were in a deficit position. "The rate of change in the dollar magnitude of unfunded past service liabilities and experience deficiencies," according to the Financial Executives Institute of Canada, "continues to grow at an alarming pace."³⁶ Between 1969 and 1979 unfunded liabilities and experience deficiencies in the private sector increased by some 555 per cent and from nearly 20 to 30 per cent of occupational pension plan contributions.³⁷ By 1980 total actuarial liabilities represented 38 per cent of shareholders equity and were 34 per cent of three year average pre-tax income.³⁸ In recent years the absolute magnitude of unfunded liabilities and actuarial deficiencies has not appreciably improved, and have been kept in check in relation to accounting ratios only as a result of an increase in the equity and earnings base of corporations.³⁹

In the United States the unfunded liabilities of employer-sponsored occupational pension plans have reached alarming proportions in recent years. Unfunded pension liabilities for 10 of the top 100 U.S. corporations listed in the Fortune 500 in the late 1970s were equivalent to one-quarter to one-third of the net worth of the company, and in some cases even more.⁴⁰ For seven of those companies unfunded pension liabilities exceeded the value of the company's stock. A subsequent survey of 1,644 large U.S. industrial and service companies confirmed these findings.⁴¹ For major corporations such as Westinghouse, LTV, Western Union, Bethlehem Steel, International Harvester, GM, Uniroyal and Chrysler

unfunded pension liabilities ranged from 35 to 278 per cent of net worth. Among large U.S. corporations as a group, contributions to pension funds are now equivalent to 20 per cent of pre-tax earnings - double the amount of a decade ago - and "that proportion," according to business sources, "is bound to increase further."⁴² These are no longer corporations with a pension plan, but are an unfunded liability with a company. The unfunded liabilities and actuarial deficiencies of occupational pension plans are built into the long-term debt structure of a corporation and affect its cash flow and profit position, thus requiring increased contributions in the future. Higher pension costs in the future, however, will exert downward pressure on wages and profits, unless the compensation package is squeezed elsewhere. This poses structural contradictions within the framework of distributive and intra-organizational bargaining.

A fifth reason underlying the long-run pressure for increased occupational pension plan costs is population aging. The aging of the labour force is a concomitant of an aging population, with a rising median age as discussed in Chapter 3.3. A corollary to the general aging of the labour force is the reduced proportion of young and the increased proportion of elderly.⁴³ Labour force growth in Canada will decline from the 3.1 per cent a year experienced in the 1966-1979 period to 0.5 per cent per annum by 2011.⁴⁴ By definition, a consequence of an aging labour force and a declining rate of labour force growth will be an increasing cost per unit of pension benefit. This will generate increased occupational pension plan costs as a result of the larger proportion of older workers in the labour force. The generally increasing cost per unit of pension benefit, while varying by industry and employer, is a long-term structural pressure increasing the level of occupational pension plan contributions required of employers and employees.

The aging of the labour force, and union members more generally, may augur a shift in bargaining priorities by unions. It is well established that interest in pensions and retirement related matters increases significantly after age 45. In some occupational jurisdictions this shift in priorities may in fact already be occurring.⁴⁵ The new emphasis and priority on improved occupational pension arrangements by the increasing proportion of older union members will, in one instance, conflict with the importance placed on direct monetary compensation by young workers and, at the same time, will force older workers to confront the "trade-off" between direct and deferred compensation. It is problematic whether older workers will be prepared to "trade" money today for pensions tomorrow. To fulfill its social security function and organizational imperatives the union may be forced into a conflict with one or the other generational factions of its membership to resolve this conflict.

The sixth, and final, factor contributing to increased contribution levels for the private and public pension systems is the cost of pension reform. Pension reform will almost inevitably impose higher contribution levels on employers and employees, resulting in reduced profit margins for corporations and a reduction in current consumption for workers. It is extremely difficult to specify the micro and macro-economic adjustment processes and consequences of pension reform proposals because these are invariably predicated upon certain assumptions about economic behaviour. However, when the Employee Retirement Income Security Act 1974 was enacted in the United States, it increased employer-sponsored pension plan costs by an estimated 5 to 10 per cent.⁴⁶ The 1983 Parliamentary Task Force on Pension Reform in Canada estimated the cost of its private pension reform "package" to be in the order of an additional 1.5 to 2 per cent of payroll.⁴⁷ This does not, however, take into account increased C/QPP contributions for current and/or improved benefits.

Compounding the increasing cost of the employer-sponsored occupational pension system is the cost of reforming the state pension system. The long run contribution rate for the Canada/Quebec Pension Plans for current benefits must be increased from the present total contribution rate of 3.6 per cent to 8 to 10 per cent, shared equally between employers and employees, over the next 40 to 50 years. Coupled with some minor improvements the long-term total contribution rate would be in the order of 9 to 11 per cent, or some 150 to 206 per cent greater than the current contribution level.⁴⁸ However, if the income replacement rate for the C/QPP was increased from the present 25 to 50 per cent, so as to conform to international standards, it would require a total (full-cost) contribution rate of roughly 16 per cent, or nearly 345 per cent above the current contribution level. While the specific method used to phase-in the higher contribution rates may somewhat moderate the cost impact, it nevertheless remains true that employers and workers in Canada will be faced with increasing contributions to the state pension system over the next 40 to 50 years. Contributions to the U.S. social security retirement system, shared equally between employers and employees, have continuously risen over the past 23 years from a total of 3.0 per cent in 1960 to 13.8 per cent in 1983. It is estimated that total contributions will have to increase to at least 15.3 per cent by 1990 to offset the chronic deficit experienced by the social security fund. Significantly, the National Commission on Social Security conveniently avoided making a recommendation regarding the required level of social security contributions in the period after 1990 when the "baby boom" generation retires.⁴⁹ It is not unreasonable to surmise, however, that the rapidly rising proportion of elderly in the population, compounded by pay-as-you-go (PAYGO) financing, will necessitate significantly increased contribution rates in the future. Similar pressures may affect the U.K. state earnings-related retirement system.

The prospect is for increasing total pension costs and contributions - private and public - in the future. This will affect both labour and management in terms of distributive and intra-organizational bargaining. Pension costs under conditions of collective bargaining, however, assume a particular significance because of their magnitude.

5.5.3 Pension Costs Under Collective Bargaining. Under conditions of collective bargaining, total and employer-sponsored occupational pension costs are significantly greater than for non-unionized employers. In Canada the expenditure on welfare and health plans, total pension costs, and occupational pensions is nearly 94, 115 and 179 per cent greater respectively for unionized firms than for non-union companies as is reported in Table 5.4. These data indicate that union's have been successful

TABLE 5.4

COMPARISON OF TOTAL EMPLOYEE COMPENSATION,
EXPENDITURE FOR WELFARE AND HEALTH PLANS
AND PENSION COSTS FOR
UNION AND NON-UNION WAGE-EARNERS,
CANADA, 1978

| Pay Item | Employers With at Least 100 Employees | | Differential of Union Over Non-Union Employees |
|--|--|-----------|---|
| | Union | Non-Union | |
| Total Employee Compensation | \$16,977 | \$12,323 | 37.8% |
| Expenditure for Welfare and Health Plans | 1,742 | 898 | 93.9 |
| Total Pensions | 815 | 380 | 114.5 |
| Occupational | 650 | 233 | 178.9 |
| State | 165 | 147 | 12.2 |
| Life & Health Insurance | 364 | 152 | 139.5 |
| Workers' Compensation | 298 | 165 | 80.6 |
| Unemployment Insurance | 216 | 187 | 15.5 |
| Other | 49 | 15 | 226.7 |

Note: 1. Statistics Canada classifies vacation pay, paid holidays and sick leave as "Expenditure for paid absence" and are not included here.

Source: Retabulated and calculated from Statistics Canada, Employee Compensation in Canada, All Industries, 1978 (Ottawa: Minister of Supply and Services, 1980), Text Table X, p. 27.

in advancing the social welfare and retirement income needs of their members compared with other sections of the labour force.

Under conditions of collective bargaining the relative rank order of pension costs and their absolute magnitude is of considerable significance. This preeminence will be magnified in the future as pension costs increase as was analyzed in section 5.5.2. As one business representative was to state, "pension costs are simply part of the total cost of doing business."⁵⁰ Therefore pension costs are subject to management's cost discipline and minimization behaviour. The magnitude of pension expenditures and their increasing cost suggest that they will be of prime concern within the distributive collective bargaining framework between labour and management. As pension costs escalate in the future an attempt probably will be made by management to cut or restrain other components within the compensation package. It has been established, however, that once introduced, employee benefit costs are more rigid than wages as part of the compensation structure.⁵¹ This poses a direct "trade-off", or conflict, between monetary and non-monetary items within the compensation package which must be resolved through the collective bargaining process. Management's cost minimization behaviour is then in direct opposition to the union's organizational imperative and the maximization of its social welfare function, as well as an aging union membership with its increased priority for retirement income. Pension costs under conditions of collective bargaining may therefore become one of the most contentious issues in the future because it will accentuate the structural contradictions inherent in the industrial relations system.

5.5.4 Unions and Pension Coverage. Union members are the largest and most concentrated group covered by the private pension system. Increasing occupational pension plan costs which reduce their standard of living is likely to be of particular relevance to them. The strong positive

relationship between unionization and occupational pension plan coverage suggests that unions may be in a position to exert considerable institutional power to protect the interests of their members. In Canada 81 per cent of all trade union members are covered by an employer-sponsored occupational pension plan, compared with 78 per cent in the U.S. and 52 per cent in Britain. Trade union members therefore represent on average nearly 50 per cent of all occupational pension plan members in these countries. These data are outlined in Table 5.5. In general, there is a strong positive correlation between the level of unionization (unionization ratio) and occupational pension plan coverage, particularly at the industry level. Table 5.6 presents a transnational comparison of the relationship between unionization and occupational pension plan coverage at the industry level based on standard statistical tests. For Canada and Britain there is a significant correlation coefficient (r), indicating a strong statistical association, and robust coefficients of determination (r^2), suggesting a firm causal relationship. In the United States, however, there is only a moderate statistical correlation and a weak causal relationship between pension plan coverage and the level of unionization.

There are a number of political, collective bargaining and institutional implications regarding the propensity of unionized workers to be covered by an occupational pension plan as it relates to the increasing cost associated with the private pension system. Politically, trade unionists are one of the primary groups affected by the universal and particularistic limitations of the private pension system. An important corollary is that trade unionists, by virtue of their concentrated membership in the private pension system, are potentially in a position to act as a catalyst for progressive change. Under conditions of collective bargaining the increasing cost associated with the private pension system suggests that all trade unionists, young and old alike, are affected. Increasing occupational pension

TABLE 5.5

PROPORTION OF TRADE UNION MEMBERS COVERED
BY AN OCCUPATIONAL PENSION PLAN
AND AS A PERCENTAGE OF
ALL PRIVATE PENSION PLAN MEMBERS,
CANADA, U.S., AND U.K., 1979-1981

| Country | Union Members | | Total Pension Plan Members | Union Members Covered by an Employer- based Pension as a % of All Private Pension Plan Members |
|---------------------|----------------------------|------------|----------------------------------|---|
| | Covered by Pension Plan | Total | | |
| Canada ¹ | 2,013,868 | 2,492,719 | 4,475,429 | 44.9 |
| U.S. ² | 12,036,000 | 15,430,769 | 29,867,500 | 40.9 |
| U.K. ³ | 7,000,000 ⁴ | 13,498,000 | 11,800,000 | 59.3 |

Notes: 1. 1982; 2. 1980; 3. 1979; 4. Estimated by Social Insurance and Industrial Welfare Department, Trades Union Congress. Correspondence with author January 11, 1983; 5. Bargaining units with 200 or more employees.

Sources: For Canada, information supplied to the author based on a special computer run by the Collective Bargaining Section, Labour Canada, November 18, 1982 and Statistics Canada, Pension Plans in Canada, 1980 (Ottawa: Minister of Supply and Services, 1982), Text Table 11, p. 13. For the U.S., Daniel J. Beller, "Patterns of Worker Coverage by Private Pension Plans", U.S. Bureau of Census and Department of Labour, August 1980, Table 1, p. 10 and Table 4, p. 16. British data based on information supplied to the author by the TUC, Social Insurance and Industrial Welfare Department, January 11, 1983 and the Government Actuary, Occupational Pension Schemes, 1979 - Sixth Review (London : HMSO, 1981), Table 2.1, p.5.

TABLE 5.6

RELATIONSHIP BETWEEN
OCCUPATIONAL PENSION PLAN COVERAGE¹
AND
LEVEL OF UNIONIZATION,²
BY SELECTED INDUSTRIES,
CANADA, U.S., AND BRITAIN,
VARIOUS YEARS

| Industrial Group ³ | Canada | | U.S. | Britain | |
|--|---------------------------------------|--------------------------|---------------------------------------|---------------------------------------|--------------------------|
| | Private Pension Coverage ⁴ | % Unionized ⁵ | Private Pension Coverage ⁶ | Private Pension Coverage ⁷ | % Unionized ⁸ |
| Public Administration | 98.0% | 67.4% | 82% ⁹ | 69.6% | 83.1% |
| Construction | 47.9 | 52.1 | 37 | 26.3 | 27.2 |
| Transportation, Communications & Utilities | 50.5 | 50.0 | 66 | 61.5 | 83.1 ¹⁰ |
| Manufacturing | 50.2 | 43.5 | 66 | 44.6 | 62.2 |
| Mine, Quarries & Oil Wells | 67.6 | 39.7 | 70 | 77.2 | 96.2 |
| Service Industries | 24.5 | 22.6 | 30 | 28.1 | n.a. |
| Trade | 15.8 | 8.5 | 29 | 28.1 | 11.4 |
| Finance and Insurance | 37.0 | 2.7 | 50 | 60.6 | 44.8 |
| Agriculture | 0.7 | 0.3 | 13 | 25.2 | 22.2 |
| Correlation Coefficient (r) | .9 | | .4 | .9 | |
| Coefficient of determination (r ²) | .7 | | .2 | .8 | |

Notes:

1. As a percentage of total paid civilian labour force.
2. As a proportion of paid labour force.
3. The industrial categories have been put on as comparable a basis as possible.
4. For 1978.
5. For 1976.
6. For 1979.
7. For 1970.
8. For 1974.
9. Average of state, local and Federal government.
10. Transport and telecommunications are included in public administration.

Sources:

For Canada, Statistics Canada, Pension Plans in Canada, 1978 (Ottawa: Minister of Supply and Services, 1979), Text Table IV, p.18 and Statistics Canada, Corporations and Labour Unions Returns Act Report for 1976 Part II - Labour Unions (Ottawa: Statistics Canada, 1978), pp.72-74. For the U.S., President's Commission on Pension Policy, Coming of Age: Toward A National Retirement Income Policy (Washington, D.C., PCPP, February 1981), Table II, p.27 and calculated from the U.S. Department of Labor, Bureau of Labor Statistics, Handbook of Labor Statistics (Washington, D.C., GPO, 1980), Table 162, p. 408 and Table 72, p. 151. For Britain, calculated from NES Department of Employment, Gazette (August 1971) and Robert Price and George Sayers Bain, "Union Growth Revisited: 1948-1974 in Perspective", British Journal of Industrial Relations, Vol. XIV (November 1976), Tables 2-3, pp. 342-343.

plan costs will therefore affect the most organized and concentrated group within the private pension system.

The institutional response by unions and workers may take three possible forms. First, unionized workers, who represent the largest proportion of occupational pension plan members, are potentially in a position to offer organized resistance to increasing pension costs which affect their standard of living. Second, increasing pension costs have a destabilizing effect upon distributive bargaining between labour and management. Resistance from an organized and concentrated group of pension plan members to rising pension costs reinforces this instability. Third, increasing pension costs may provoke a combative response from unions and workers.

In this regard it is interesting to note that in the U.S. in 1949 employee benefits accounted for over 25 per cent of all strike idleness.⁵² Members of unions have been known to reject contracts because of the inclusion or exclusion of employee benefits.⁵³ In North America two important strikes were fought over pensions: the long 1970 United Auto Workers (UAW) strike against General Motors to establish the "30 and out" early retirement pension⁵⁴ and the bitter 1979 United Steel Workers (Canadian region) strike against the giant Inco Corporation to achieve the same objective. In Britain, during a period of income policies in 1974, employee benefit disputes accounted for nearly 7 per cent of all pay disputes.⁵⁵ In the United States in the mid-1970s wages and benefits accounted for nearly one-quarter of all work stoppages. In 1981 one-quarter of all person-days lost due to strikes in Canada were as result of benefit and wage disputes, including the 69-day City of Moose Jaw, Saskatchewan, municipal worker strike over pensions.⁵⁶ Pension improvements were the major issue during the 110 day lockout of municipal employees in Bathurst, New Brunswick, in 1983-1984. Recent strikes in France and Sweden were

fuelled by the dissatisfaction of young workers with higher pension contributions. Pensions under conditions of collective bargaining, as indicated by these examples, can become a disruptive issue within the industrial relations system.

The structural dynamic outlined in the preceding analysis suggests that accelerating pension costs in the future, because of the impact on distributive bargaining between labour and capital, are likely to have an increasingly destabilizing affect on the industrial relations system. Occupational pension plans under conditions of collective bargaining also impact on a series of power issues which have a similar effect.

5.6 Power Issues: The Right to Control

Collective bargaining within the formal framework of the industrial relations system is primarily concerned with the distribution of monetary compensation and power between labour and capital. This generates forces for conflict as well as for accommodation. Power cements the industrial relations system and collective bargaining relationships together. Power within the collective bargaining relationship relates to and signifies the ability or inability of one party to impose its will on the other. Conversely, power is the ability or inability of one party to resist. Under conditions of collective bargaining in a capitalist political economy, power is the ability or "right" of management or labour to control conditions of employment. The power to control therefore manifests itself through specific bargaining issues.

Power, inequality and ideology, as Hyman and Brough argue, are closely interconnected.⁵⁷ The inequality of power between unions and management with respect to occupational pension plans under conditions of collective bargaining has generated manifest and latent tensions which may further disrupt the industrial relations system in the future. Here certain

limitations of the private pension system are identified and examined as they relate to the collective bargaining power relationship. The power issues dealt with here are all associated in one form or another with the scope of collective bargaining and the ability of the union to carry out its social security function. Power issues in general, including those specifically associated with occupational pension plans, go to the heart of the modern union's organizational imperatives and the distribution of power within the collective bargaining relationship.

5.6.1 Negotiability and Recognition: The Scope of Bargaining.

The right of a union to negotiate pension arrangements as a condition of employment is a fundamental issue related to the recognition of the union in law as a representative of the individual trade union pension plan member. These issues are of particular relevance to the highly legalistic North American industrial relations system.

Since the ruling of the U.S. National Labour Relations Board in the 1949 Inland Steel case, pensions were deemed to be wages, and hence an appropriate and mandatory subject for collective bargaining. Failure to negotiate pension arrangements is deemed to be "bad faith bargaining" and an "unfair labour practice". In Canada, however, whether pensions in the private sector are a mandatory subject for negotiations is a gray area of the labour law. There are in Canada no labour board, grievance arbitration or court cases ruling that pensions are a mandatory subject for negotiations. The distinction between U.S. and Canadian jurisprudence turns on whether pensions are deemed to be "deferred wages". U.S. jurisprudence clearly recognizes the deferred wage doctrine; however, Canadian labour law is silent on the subject.⁵⁸ Effectively this means that management in the private sector is under no compulsion to negotiate pension arrangements. In the public sector, pensions are often excluded by legislation from the scope of negotiable issues. This has the effect of narrowing the scope of

collective bargaining in both the private and public sectors. A consequence of this situation is that unions in Canada must rely on their bargaining strength - power - to deal with pension matters. Such an approach results in making the pension issue all that more volatile in the future, particularly with an aging labour force.

A related problem is the latent conflict in Canada between the pension and labour relations legislation as it pertains to the recognition of unions to deal with pension matters. Pension legislation only recognizes the individual employee-employer relationship, but does not recognize the collective union-employer relationship existent under labour law. The failure of the various jurisdictions' Pension Benefits Act with respect to recognizing a bona fide bargaining agent as the legal representative or agent acting on behalf of individual employees stems from the earlier paternalistic attitude when a pension was a "gratuity", and hence a private matter between the individual employee and employer. Under conditions of collective bargaining, however, group rights are generally recognized as superseding individual rights. In law, the union has the legal right to represent individual employees in matters pertaining to labour relations such as pensions. It is the union, not the individual, which negotiates pension arrangements. The union, in law, however, also has certain obligations with which it must comply such as the duty of "fair representation", or financial disclosure to individuals concerning health and welfare plans, for example, under section 76(a)(3) of the Ontario Labour Relations Act.

The tension arises in as much as the pension legislation completely circumvents the union, while the union is accountable to individual members under the labour relations legislation. Thus the union has the responsibility to represent, or act on behalf of, the individual regarding labour relations matters such as pensions, but has no independent rights or powers to carry out its obligations. This situation has serious

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members. There is no legal requirement for them to do so. Most pension plans in Canada are deemed to be an unilateral management right, shrouded in secrecy, so neither unions nor employees are entitled to receive information about them. Many employers administer the pension fund, even if it is a contributory plan, as if it were their own feudal fiefdom. According to one survey, fewer than 20 per cent of all pension plans in Canada provided members with a summary of investments and only 12 per cent of plans supplied information regarding the actuarial position of the plan.⁵⁹ Under conditions of collective bargaining, the reality of the situation is that many employers refuse to even supply the union with such rudimentary information as the plan text or trust document. In Ontario in 1976, for example, one major public sector employer with 60,000 pension plan members refused to file a copy of the plan text with the union for review.

In most jurisdictions under the Pension Benefits Act, with the notable exception of Manitoba and Quebec, pension plan administrators are only required to issue a popularized informational brochure to employees, who are restricted to making extracts of the plan at the offices of the pension authority.⁶⁰ Furthermore, an employee is not entitled to a pension statement except on termination of employment or membership in the plan. The current legislation in most jurisdictions makes no provision for a union representing employees to acquire pension plan information directly and independently except as "authorized in writing" from a plan member.⁶¹ During the many hearings dealing with pension reform in Canada in recent years, one of the most frequently cited frustrations and complaints made by trade union representatives is the lack of disclosure and the inaccessability of information concerning negotiated employer-sponsored pension plans. The disclosure of pension plan information is a minimum requirement for intelligent and informed

collective bargaining. The lack of disclosure concerning pension plan information by employers mirrors an antiquated paternalism and reflects an arrogance based on the unilateral exercise of power.

The situation in Canada stands in marked contrast to that which has evolved in the United States and Britain. As early as 1942 the U.S. National Labour Relations Board ruled, and various court decisions upheld, that an employer must furnish the union with all the information necessary for bargaining on pension matters.⁶² The Welfare and Pension Plans Disclosure Act 1958 required the public filing of pension plan information. These provisions were subsequently incorporated into and broadened under the Employee Retirement Income Security Act 1974. In Britain, disclosure of pension scheme information to plan members was a result of early legislative intervention.⁶³ The Occupational Pensions Board report upon which the Labour government based its 1976 white paper, broadened the thrust by recommending that unions receive all pertinent information and complete disclosure of pension scheme activities.⁶⁴ "Occupational pension schemes exist for the benefit of their members," the white paper noted, and "members of a scheme ought to be given all the information necessary."⁶⁵ Significantly, the legislation would have provided that "independent recognized trade unions with members in a scheme will have the same right to information...as the members themselves",⁶⁶ thus avoiding the quandry that exists in Canada. Despite the fact that the legislation was never enacted it nevertheless had a very real "threat effect". This has resulted in the voluntary disclosure of pension plan information by employers.⁶⁷ An official of the Trades Union Congress (TUC) concluded that the contemplated legislation had "some effect".⁶⁸ A representative of the Transport and General Workers' Union (TGWU) reported that they generally had "no trouble getting costing and actuarial reviews" and that "investment data is available" as well.⁶⁹ The Head of

the Pensions and Social Services Department of the General and Municipal Workers' Union (GMWU) summed up the situation in an interview by saying that there was no longer a "real problem".⁷⁰

The lack of disclosure of pension plan information in Canada is viewed by organized labour as a general limitation of the private pension system. In this sense it is perceived as a public policy issue. Under conditions of collective bargaining, however, it is viewed as a very real problem which inhibits unions from effectively doing their job and advancing the welfare of their membership. The issue is viewed as an institutional challenge to the union. Underlying this issue, perhaps above all else, is a sense of inequity and injustice. This makes pension plan information disclosure a volatile issue within the collective bargaining arena.

5.6.3 Post-Retirement Negotiations. The rapid inflation of the 1970s has eroded the fixed income of former union members who have retired. This has placed North American unions in a contradictory situation in that they are caught between the demands of their actively employed members and retired former members, in one instance, and are limited with respect to their scope of action by the current interpretation of labour law in another.

In North America, decisions by the U.S. National Labour Relations Board (1966) and Supreme Court (1971),⁷¹ and the British Columbia Labour Relations Board (1977)⁷² in Canada, have ruled that a union can only legally represent and negotiate on behalf of actively employed employees of an employer. Because a union has no legal right to represent its retired former members, the negotiation of post-retirement adjustments has been deemed a permissive, rather than a mandatory, subject for collective bargaining. This has meant in practice that improved post-retirement benefits can only be negotiated by the mutual consent of the parties to a collective agreement. Only a few unions such as the United

Auto Workers (UAW), United Steel Workers (USWA) and the International Woodworkers of America (IWA) have been successful in this regard. While bargaining on behalf of retired members is possible under Britain's voluntaristic industrial relations system, the General and Municipal Workers' Union reports "no real progress in concrete terms," because the cost associated with post-retirement improvements "is part of the total package."⁷³

This situation creates a dilemma for unions in terms of distributive and intra-organizational bargaining. Pressures force unions to "trade-off" pension gains against more immediate monetary concerns.⁷⁴ This exacerbates the not so latent sectional (intra-class) tension between actively employed union members and retired members. It is interesting to note in this regard that while the U.S. Supreme Court held that retirees do not share a community of interest with actively employed union members, the B.C. Labour Relations Board arrived at the opposite conclusion. Deeming the negotiation of post-retirement adjustments a permissive subject for collective bargaining results in compounding this tension because retired union members are becoming better organized and more vocal within their unions.

Unions in North America and Britain have attempted to provide for some of the retirement needs of their former members, including low-cost housing, health clinics, senior citizens' homes and retired workers' chapters. In North America the United Auto Workers (UAW), International Association of Machinists (IAM), International Ladies Garment Workers' Union (ILGWU) and the Canadian Union of Public Employees (CUPE) are examples of unions which have established retired workers' locals. In Britain union practices vary. In the giant Transport and General Workers' Union (TGWU), former members are organized into a T&G Retired Members' Association. While they have no formal representation on bargaining

committees, their views are made known through the Association. According to one source the "T&G are very strong on pensioners",⁷⁵ as is Jack Jones the former head of the TGWU.⁷⁶

As a result of inflation, internal political pressures and their own organizational imperatives, unions are under increasing compulsion to negotiate post-retirement adjustments for their retired former members. Because of legal precedent in North America and the voluntaristic negotiating framework in Britain, however, unions must rely on their bargaining strength to force employers to deal with this issue. An aging labour force, and an uncertain inflationary climate in the future, may propel labour and management towards each other. The power issues associated with pensions under conditions of bargaining - the negotiability of pensions, union recognition, disclosure of information, and post-retirement adjustments - are all related to the union's scope of collective bargaining and its ability to effectively control conditions of employment. Equity is similarly related to the distribution of power under conditions of collective bargaining.

5.7 Equity: The Adjudication of Pension Disputes

Management's control over occupational pension plans, as a result of the inequitable distribution of power under conditions of collective bargaining, becomes an equity issue as it affects the administration of the pension plan. Few occupational pension plans in Canada or Britain have a formal procedure whereby a dispute between a plan member or beneficiary and the plan administrators or trustees for benefit claims can be resolved. Most occupational pension plans, even those which are negotiated and contributory, explicitly state that the decisions of management-appointed plan administrators are "final and binding". Simply, most employer-sponsored pension plans do not have an appeals procedure to

challenge or redress administrative decisions concerning the determination of retirement, survivors' and disability (invalidity) benefits. An employee, or beneficiary, is thus denied administrative review and natural justice. While an individual may choose civil litigation to resolve a dispute, it is a lengthy and costly process.

The purpose of a grievance and adjudication (arbitration) procedure for pension and other employee benefit plan disputes is the same as for any other matter falling within the scope of a legally binding collective agreement, that is, to interpret and administer the collective agreement. Two distinct approaches to employee benefit plan adjudication have developed. First, the pension plan is "incorporated by reference" into the collective agreement. The normal grievance and arbitration procedure in the collective agreement is then used to resolve any pension plan or employee benefit dispute in precisely the same way as it would be used for any other issue falling within the scope of the agreement. This is the approach which has been used in heavy industry in North America. The second method is to include an adjudication procedure in the pension plan's trust deed. This latter procedure is most commonly used in the United States.

The need for an adjudication procedure to protect the rights and benefits of all pension plan members was recognized and introduced in the U.S. Employee Retirement Income Security Act 1974 which stipulated that all private pensions and welfare plans must establish a procedure to "afford a reasonable opportunity to any participant whose claim for benefits has been denied for a full and fair review ...of the decision denying this claim." U.S. Department of Labour Regulation 2560.2 implementing section 1133 of ERISA provides that a "claims procedure which is established and maintained pursuant to a collective bargaining agreement and...includes provision for binding arbitration of an appeal...will be deemed a reasonable

claim procedure." For those occupational pension plans in the United States which do not have a formal adjudication procedure, the International Foundation of Employee Benefits and the American Arbitration Association have developed a set of rules and procedures.⁷⁷ In Britain, where grievance arbitration is relatively undeveloped compared to the highly legalistic North American industrial relations system, the Trades Union Congress (TUC) has endorsed pension plan adjudication noting that,

problems are bound to arise concerning the...[pension] scheme, and a formal procedure must be established to deal with any that cannot be sorted out...The most satisfactory method would be to refer the matter to independent arbitration.⁷⁸

While some unions such as the TGWU have used ad hoc pension plan adjudication in the past, this has been the exception.

The private pension system in order to remain viable must be perceived by occupational pension plan members as being equitable and responsive to their needs. The public pension system, and other social welfare programs, in most countries have an appeals procedure to challenge administrative decisions. An adjudication procedure, in one form or another, exists within most collective bargaining arrangements with respect to other conditions of employment. The administrative inequities of the private pension system, such as the lack of an appeals procedure, are fundamentally related to the maldistribution of power between labour and management under existent collective bargaining arrangements.

The limitations of the private pension system under conditions of collective bargaining as represented by cost, power and equity issues inject, albeit for different reasons, a destabilizing and volatile element into the industrial relations system. Many of the structural pressures underlying these issues will increase in the future. Matters related to cost, power, equity and control, however, converge into one potentially explosive issue - the co-management of pensions.

5.8 Flashpoint: The Co-Management of Pensions

The co-management of occupational pensions under collective bargaining poses important issues related to the unilateral management and control of pension arrangements: control over pension assets, investment strategy, portfolio composition, structures for co-management, the fusion between pension fund and corporate management, the nature of the union social security function and the democratization of the workplace. Within the formal industrial relations system the co-management of pensions under collective bargaining contains within it a contradictory potential for either conflict or incorporation.⁷⁹

The co-management of occupational pension plans is fundamentally a power issue under conditions of collective bargaining as it relates to the enormous concentration of assets under the control of the private pension industry and dominant financial institutions. This is dealt with in Chapter 8. It is suggested that the corporate sector will resist any serious co-management of pensions with unions for two reasons. First, the co-management of pension funds represents an encroachment on management's unilateral right to control occupational pension plans. In effect, co-management of pensions represents a broadening of the scope of collective bargaining and a widening of concurrent powers, resulting in a redistribution of power within the bargaining relationship. Second, the co-management of pensions places a limitation on the unilateral right of organized capital to direct private investment. Pension funds have a considerable impact on the operation of capital markets as will be demonstrated in Chapter 7. The co-management of pensions - administrative operation and investment management - is of concern to all of organized capital because pension funds are financial intermediaries and institutional investors linking the finance and industrial sectors of the economy. This is dealt with in Chapters 6 and 9. Therefore, the

co-management of pensions affects the general interests of all capital, as well as being a specific issue under conditions of collective bargaining.

5.8.1 Unilateral Management Control of Pensions. Unions and workers in Canada, Britain and the United States have virtually no involvement with or control over the administration or investment decisions affecting employer-sponsored occupational pension plans. The anatomy of control has been described as follows

financial control has been delegated by ... employers to the banker-trustee [trust companies in Canada], which exercise considerable power in capital markets as a result. The employer controls the... operation of the plan... in [some] cases in accordance with a basic agreement... with a union. The employee himself, without his union, has little or nothing to say⁸⁰ about the pension which is financed out of his earnings.

While "the beneficiary of a pension is the true owner of the property," one banker wryly noted, "he can't act as an owner - so he has a lot of people acting on his behalf."⁸¹ The pension beneficiary-plan member-is in the hands of his pension guardians-the employer, plan trustees, the state, and occasionally his union. According to Harbrecht, "beneficiaries are the group who have the least influence upon the formulation of pension trust policy."⁸²

Unions in reality exert little influence or control over occupational pension plans. Employers retain ultimate and effective unilateral control. In Canada in 1979 only 7 per cent of all collective agreements covering 11 per cent of employees had any arrangement for joint union-management control of the occupational pension plan.⁸³ Only a few private sector unions, such as the construction trades, have jointly trustee pension plans. A number of large public sector plans, however, have a joint labour-management pension committee which acts in a consultative capacity. Section 302 was added to the 1947 U.S. Taft-Hartley Act to specifically prohibit unions from obtaining exclusive power over

multi-employer pension plans. According to one U.S. study in the mid-1950s, about four-fifths of all employees were in pension plans where the employer had ultimate control.⁸⁴ A subsequent 1973 U.S. Department of Labor survey found that only 9 per cent of all pension plans covering 30 per cent of members in bargaining units of over 500 employees had joint union-management administration of the pension plan.⁸⁵ In Britain there has been a consultative tradition in the public sector based on the Whitley Councils since World War I. This was extended to nationalized industry, such as the National Coal Board, British Rail and the British Steel Corporation after World War II. Only 18 per cent of all pension scheme members in the public sector, however, are in a plan where there is a joint management committee, and a mere 10 per cent are covered by such an arrangement in the private sector.⁸⁶ According to the National Association of Pension Fund survey (1978) only 2 per cent of all scheme trustees are nominated by an independent trade union, 12 per cent are elected by plan members, and 74 per cent are nominated by the employer.⁸⁷ These data indicate that there is little effective involvement or control by unions of occupational pension plan administration or investment management.

The primary objective of an occupational pension plan should be to ensure that the pension is adequately funded, that workers' equity in the plan is protected and that workers receive the maximum retirement income possible given the prudent management of the fund. The goal of adequate retirement income is contingent upon the extent to which these conditions are fulfilled. Under conditions of collective bargaining the co-management of pensions is a way of ensuring that these conditions are met.

The reasons for the co-management of pensions may be summarized as follows.⁸⁸ First, money in pension plans, whether contributory or non-contributory, belongs to workers. It is part of their

compensation within the deferred wage doctrine. The United Auto Workers as early as 1949 and the American Federation of Labor (AFL) in the mid-1950s took the position that there should be equal labour-management representation of trustee pension plans based on the deferred wage doctrine.⁸⁹ The deferred wage theory involves "the issue of who shall control the operations of the pension program," because "it becomes the legitimate concern of the worker to see that his expectancy is safeguarded and preserved."⁹⁰

A second consideration is that there are reasons to believe that many pension funds administered by employers are not managed in the best interests of employees, but rather are an indirect source of profit for the firm, that is, private sector occupational pension plans are managed in accordance with the "profit-center" theory of management, where each operation of a corporation is required to show a profit. The pension fund is treated as a mutual fund (with a surplus or deficit net asset value) that results in lower pension contributions for the firm if the rate of return is good and higher contributions if performance is poor. In Britain "self-dealing" or "auto-financing", that is, where a pension fund holds a disproportionate quantity of the plan sponsors financial securities is all too common. Pension funds have been used as well to promote or inhibit corporate acquisitions and take-overs such as the Unilever pension fund's backing of Sprey Investment's diversified activities in the early 1970s or Grumman Aircraft's use of its pension fund to thwart a 1981 take-over bid by LTV. Public sector pension funds are known to be a "dumping ground" for low interest bonds and are characterized by a high debt-low equity asset mix ratio, resulting in a lack of portfolio diversification. The Toronto Police Benefit Fund and the giant Ontario Municipal Employee Retirement System (OMERS) in the late 1960s are examples of these practices. In addition, public sector pension plans engage in extensive "self-dealing", that

is, buying their own government bonds to finance current government expenditures; reciprocal "bond swaps" between state and local retirement systems in the U.S. are a common practice. "Churning" public and private sector pension funds by investment managers, that is, unnecessary transactions to generate brokerage commissions is an all too frequent practice.⁹¹

Third, unless employees are protected by a union in a co-management arrangement there is no assurance that their pension rights and entitlements will be safeguarded. The co-management of pensions establishes a system of cheques and balances within the pension program. The union can then act in a "watch dog" capacity with respect to pension plan administration regarding such equity issues as pension plan disclosure and adjudication, as previously examined. In addition, the union can oversee and influence such cost related issues as investment management and performance measurement, commissions, actuarial assumptions and funding levels. It is known, for example, that a 1 percentage point difference in the rate of return on investment can result in a 15 to 20 per cent difference in employer contributions or retirement benefits to employees. The co-management of pensions has positive features, as McNulty has concluded, with respect to the security of pension benefits.⁹²

The fourth reason for the co-management of pension is that it serves a democratizing and educational function. The co-management of pensions represents the extension of political democracy to the work place. Co-management of pensions, like collective bargaining more generally, restricts the scope and exercise of unilateral management rights. The educational process would be enhanced if workers could turn to union representatives among themselves who were knowledgeable and involved with the administration and planning of occupational pension arrangements and were familiar with its technical aspects. Union involvement in the

management of occupational pension plans therefore has clear implications for power, cost and equity under conditions of collective bargaining.

5.8.2 The State and Co-Management of Pensions. In recent years in Britain and Canada the co-management of occupational pensions has been advanced as part of a broader industrial relations strategy. The initial impetus in Britain came from The Social Security Pensions Act 1975, which required management to "consult" with unions in respect of occupational pension schemes "contracting-out" from the state plan. Subsequently the Labour government in 1976 issued its white paper on Occupational Pension Schemes - The Role of Members in the Running of Schemes, which recommended the co-management of pensions in the private sector through legislated, compulsory union-management committees with equal representation from both parties.⁹³ The white paper took the position that "workers want to play their part, in accordance with modern ideas of industrial democracy" and because pensions represent the "deferred pay of the workers concerned" occupational pension schemes should not "exclude independent trade unions from the administration of the scheme."⁹⁴ The legislation subsequently died.

In Canada there have been two federal government initiatives, or "trial balloons", regarding the co-management of pension funds. The first occasion was in 1973 when the Minister of Urban Affairs urged unions to press for a stronger voice in pension fund investment policies to channel money into housing.⁹⁵ Subsequently, the federal Minister of Labour in a June 1977 speech to the International Pension Conference advocated the joint trusteeship of occupational pension plans saying that "there has been quite a lot of interest in the idea of joint participation by labour and management in corporate decision-making... Along these lines we are looking at the case for joint employer-employee trusteeship of private pension plans."⁹⁶

The motivation and ideological legitimization advanced by government in Britain and Canada for the co-management of pensions, however, was quite different. The Labour government couched its advocacy in the Fabian tradition stating that "the proposals... are to be seen... in the context of the government's wider commitment to... extending employee participation."⁹⁷ In Canada the co-management of pensions was viewed as a pragmatic "crisis management" technique and part of integrative bargaining which "should be promoted as a way of reducing confrontation over pension issues at the bargaining table."⁹⁸

5.8.3 Corporate Sector and Co-Management of Pensions. The corporate sector in Britain and Canada have responded in a similar manner to government initiatives and pressures from organized labour regarding the co-management of pensions. In Britain the Labour government's white paper came under vigorous attack from the private pension industry and business community. The National Association of Pension Funds (NAPF), representing major corporate pension plans stated that "many funds are angry at the prospect of trade union officials... having a major say in the investment of funds, while non-union members of the scheme would have no representation."⁹⁹ Speaking on behalf of the private sector the Confederation of British Industry (CBI) predicted grave and dire consequences because

moves to give trade unions control of pension funds are as dangerous to Britain as schemes to nationalize banks and insurance companies... the pension fund proposals... give unions power to dominate the financial scene.¹⁰⁰

Both the NAPF and CBI countered with proposals for employee, rather than union, participation on pension boards based on a voluntaristic (non-statutory) approach. Canadian employers have been receptive to the idea of the co-management of pensions. According to one survey, 75 per cent of management representatives indicated that corporate pension plans

should be jointly managed, compared with only 20 per cent who felt that the plan should be unilaterally controlled. Significantly, however, 71 per cent of corporate spokesman indicated that there should be "employee representatives apart from unions", while only 19 per cent approved of employee representation through unions.¹⁰¹

Two central concerns are evidenced by the corporate sector regarding the co-management of pensions. First, there is recognition of the size and importance of private pension funds and the implications of union involvement. While management is ready to "compromise" on pension plan administration, it is not prepared in general to entertain union involvement with respect to pension fund investment management. The right to control and direct investment decisions, and the capital involved, is viewed as an absolute unilateral management right. Second, management is prepared to accept employee representation only to the extent that it is not backed by the institutional power of an independent trade union. The private sector's approach to the co-management of pensions is essentially integrative or incorporationist in nature, that is, allowing unions to have participation but no power.

5.8.4 Unions and Co-Management of Pensions. Labour centrals or confederations in Britain, Canada and the United States, and their largest affiliates, have promoted the co-management of pensions with increasing aggressiveness in recent years. Labour's advocacy of an independent trade union role, including equal representation and power sharing, in all matters related to pension plan management - administrative and investment - will collide with management's integrative approach. This will transform the co-management of pensions into a power issue under conditions of collective bargaining.

The policy of the British Trades Union Congress (TUC) is that "the scheme should be run jointly by the employers and the employees through

their trade unions...so that...union representatives can prevent action being taken against the interests of the members."¹⁰² Major TUC affiliates such as the Transport and the General Workers' Union (TGWU), the General and Municipal Workers' Union (GMWU), the Association of Scientific, Technical and Management Staffs (ASTMS), and the Association of Professional, Executive, Clerical and Computer Staffs (APEX) are all increasingly turning their attention to the real sources of power within the pension machinery - namely, the trustee and investment committees. They contemptuously dismiss any interest in advisory committees which are described as "toothless wonders".¹⁰³ The GMWU has the most aggressive and articulate pension policy which states that "we must...establish pensions as an area of collective bargaining" and must "work towards an adequate number of employee representatives on pension fund management boards." The GMWU "will not countenance any attempt to limit the activities of member trustees to a secondary role" and demands that "occupational pension schemes should be jointly managed."¹⁰⁴ The TGWU and GMWU have scored breakthroughs in their bargaining relationship with Ford, ICL, Thorne, ICI and Pilkington's on this issue.

The Canadian Labour Congress (CLC) advocated employee participation in the administration of occupational pension plans as early as 1975 and pressed this position before the Ontario Royal Commission on the Status of Pensions (1977). This position was reaffirmed at its 1978 convention.¹⁰⁵ The Canadian Union of Public Employees (CUPE), the largest union in the country, passed a 1977 convention resolution advocating "a program to challenge the assumed right of the employer to unilaterally administer the pension funds derived from employee...contributions."¹⁰⁶ Resolutions were again passed at its 1983 and 1985 conventions on the subject. The United Steel Workers (Canadian region) in 1979 endorsed "the joint administration of pension plans, including the investment of pension

funds."¹⁰⁷ The recent public policy review of retirement income arrangements in Canada, however, has only dealt with this issue in a cursory fashion. In the U.S., the American Federation of Labour-Congress of Industrial Organizations (AFL-CIO), United Auto Workers (UAW), United Steel Workers (USWA), and the International Association of Machinists (IAM) have all endorsed alternative social investment strategies.¹⁰⁸ The co-management of pensions is now on the collective bargaining agenda in Britain, Canada and the United States.

5.8.5 Incorporation vs. Conflict. There are contradictory forces associated with the co-management of pensions under collective bargaining. These opposing tendencies may result in either conflict or incorporation. Structural pressures, however, will force unions to become increasingly more involved in the co-management of pensions. The co-management of pensions represents a direct assault upon and an encroachment into the area of unilateral management prerogatives. A parallel can be drawn between wage determination under collective bargaining and the co-management of pensions because

employers see it as their right to control wages of all kind. Unions are allowed to negotiate levels but they cannot control wage[s]... employees therefore have as little right to control investment of the superannuation fund, as they have to control other terms and conditions.¹⁰⁹

The co-management of pensions therefore constitutes a general challenge to management's rights.

Management will resist the demand for the co-management of pensions for three reasons. First, to allow unions either control or meaningful participation over pension fund capital and investment decision-making would be tantamount to relinquishing private direction and control of investment by organized capital. Second, the concentration and size of pension funds and their relationship to capital markets is of concern

to the broader finance sector and all of organized capital. The co-management of pension funds strikes at the heart of capitalism because it calls into question who should control capital and in whose interest investment decisions are made. Third, to the extent that pension funds are managed in accordance with the "profit-center" theory in the private sector or are used for current operating revenue in the public sector suggests that corporations and government will resist joint pension management in the same way that they would generally resist union participation in corporate planning or decision-making.

The underlying economic logic is such, however, that unions may be driven to pursue the co-management of pensions as a political demand and strategy, particularly in the private sector. Unions may be forced to challenge management's right to manage in order to ensure the security of pension benefits. This is because the payment of occupational pension plan benefits in the final analysis is linked to the financial position and solvency of the corporation. As the President of the Institute of Actuaries (Britain) observed,

what is crucial is the ability of the employer to fulfill his obligations and to increase his contributions whenever necessary. Solvency is therefore ...inextricably bound up with the resources of the employer.¹¹⁰

This is of particular relevance to the majority of unions which have defined benefit pension plans. In periods of high inflation, negative real rates of return on pension fund investment, increasing unfunded pension liabilities, unemployment and corporate mergers, if there is an investment short-fall in a defined benefit plan, the employer is required to make additional contributions to maintain the solvency of the pension plan. This suggests that workers and unions must not only be interested in pension fund management and investment performance, but as well must be concerned with the general management of the firm or industry to ensure that they are

financially viable in order to maintain the solvency of the occupational pension plan. To maintain the security of pension benefits may therefore require broader union involvement in corporate affairs. For unions the issue of pension fund management may become integrated and fused with concerns related to the broader management of the corporation. Thus the co-management of pensions as a narrow collective bargaining issue may be transformed into a broader political demand for industrial democracy.

The demand by unions for the co-management of pensions is progressive at this particular historical juncture, according to Ward, because "pensions have been treated paternalistically and controlled exclusively by managements. Member participation is an actual extension of power, and it cannot be argued that it is an illusion."¹¹¹ The extent to which trade unions aggressively pursue the co-management of pensions as a collective bargaining objective will ultimately require unions to transform this demand into a political strategy. The underlying economic dynamic which requires unions to be concerned with pension fund management and investment decision-making, will also require them to become concerned and involved with the functions of corporate management in order to protect the security of negotiated pension benefits. The co-management of pensions identifies many fundamental power and economic relationships, as well as challenging important vested interests. For these reasons it is a volatile issue under conditions of collective bargaining.

5.9 Implications of the Private Pension System's Limitations Under Conditions of Collective Bargaining

The issues of cost, power, equity and co-management as limitations of the private pension system under conditions of collective bargaining have far reaching implications over the long-term for the stability of collective bargaining relationships and the industrial relations system in Canada, Britain and the U.S. The industrial relations system is

linked to the political economy of pensions through the negotiation of pension arrangements by unions. A corollary is that 52 to 81 per cent of all trade union members in Britain, Canada and the United States are covered by an employer-sponsored occupational pension plan, representing 45 to 60 per cent of all private pension system members. The specific limitations of the private pension system under conditions of collective bargaining, therefore, affect the interests of an organized and concentrated section of the labour force.

The implications of the collective bargaining related limitations of the private pension system are briefly reviewed and summarized as follows. The cost of employee benefits and employer-sponsored occupational pension plans have increased significantly in the post-war period. Employee benefit costs now represent on average one-third of gross payroll in these countries. Total pension costs for the private and public pension systems are the single largest and most costly employer expenditure within the total compensation package, representing nearly 7 to 13 per cent of gross payroll and 20 to 47 per cent of total employee benefit costs, depending upon the country. The cost associated with occupational pension plans and employee benefits has considerably exceeded wage growth in the past thirty years. Under conditions of collective bargaining, expenditures on employee benefits and occupational pensions are significantly greater than for non-unionized firms. There are strong reasons which suggest that employers and workers will be faced by increasing total pension contributions and costs in the future. Those reasons include inflation, poor investment performance, improved benefit levels, mounting unfunded pension liabilities, population aging and the cost of private and public sector pension reform.

The significance of increasing pensions costs is that under conditions of collective bargaining a total compensation costing approach is

used with respect to labour remuneration, wages and employee benefit costs being interchangeable given finite resources. This has implications for distributive bargaining between labour and management and for internal bargaining within the union. In the first instance, increasing pension costs conflict with corporate cost minimization behaviour and reduces current consumption (take-home pay) for workers. Rising pension costs generate a downward pressure on both profit margins and real wages. To the extent that unions attempt to maximize their social welfare function by "shifting-back" the increased cost of pensions to corporations so as to protect the standard of living of their membership, this will conflict with management's cost discipline imperative. Second, management's total compensation approach to collective bargaining imposes resource allocation decisions upon the union, in particular the level and distribution of compensation between salary and employee benefits, including occupational pensions, and the distribution of welfare program costs within the employee benefit package. This already existent tension within the bargaining relationship is sharpened as a result of employee benefit and pension costs exceeding the growth in wages and the expanding employee benefit package being rigid within the compensation structure. For the union, increasing total pension costs exacerbate the "trade-off" between direct (monetary) and indirect (deferred) compensation, since an increase in one results in a corresponding reduction in the other within a total compensation costing framework.

There are implications as well for the union as an institution and for intra-organizational bargaining. The union must reconcile the different generational priorities of its members: direct monetary compensation for today's young workers and deferred compensation in the form of pension improvements for the increasing proportion of older workers. While the aging of the labour force may result in a shift in bargaining priorities, thus

decreasing this internal union tension, there is no indication that the unionized labour force will be prepared to reduce its current consumption and standard of living for deferred compensation in the future. The aging labour force with its increased concern for retirement income may demand both increased wages and improved pensions. As a result of increasing pension costs, unions as welfare institutions with their own organizational imperatives may come into conflict with the corporate sector over the level and distribution of total compensation, with the state over rising public pension plan contributions, and possibly their own membership as union leaders attempt "to protect the members from themselves".

Power, equity and ideology are interrelated in the industrial relations system. The unilateral control of occupational pension plans by employers is a reflection of this imbalance in the distribution of power between labour and management under conditions of collective bargaining. Such matters as the absence of the formal right by unions to negotiate pension arrangements, the lack of disclosure about pension plan information, legal restrictions with respect to negotiating post-retirement improvements, and the lack of an appeals procedure are all power issues under current collective bargaining arrangements. These issues restrict the scope of collective bargaining, reduce the effectiveness of the union as a welfare institution, and challenge the organizational imperatives and power of the union. These latent issues will become more evident, and potentially disruptive, as the labour force ages and the pension issue becomes more central to collective bargaining in the future.

The co-management of pensions may become the flashpoint for the private pension system under conditions of collective bargaining because issues related to power, control, cost and equity converge. The co-management of pensions as a bargaining issue identifies and impinges upon a number of crucial power and economic relationships in a capitalist

political economy - namely, unilateral management rights, the private control and direction of pension fund capital and investment decision-making, and the relationship between the private pension system, capital markets and the broader finance sector. Unions in Britain, Canada and the United States have in recent years raised and pursued the co-management of pensions as a bargaining issue with increasing vigour. Unions will be required to sustain their interest in the co-management of pensions in order to ensure maximum retirement income for their members and the security of pension benefits. The aggressive pursuit of this issue by unions will inevitably bring unions into conflict with the industrial and finance sectors as their vested interests are challenged. In turn, to guard the security of pension benefits may force unions to become more interested in corporate management so as to protect the solvency of negotiated occupational pension plans. The co-management of pensions as a narrow collective bargaining issue may therefore evolve into a broader political demand and strategy for industrial democracy.

Each of the specific limitations of the private pension system examined under conditions of collective bargaining has its own logic, or dynamic, which introduces an element of instability into the industrial relations system as a result of the way in which it impacts upon distributive bargaining between labour and capital and intra-organizational bargaining within the modern union. In general, the underlying structural pressures associated with most of these issues will be intensified in the future. Increasing pension costs and the power issues related to the co-management of pensions will be of particular importance as long-term considerations. The separate pension issues identified here are interactive. When combined with one another they may constitute a volatile "critical mass" of issues triggering a chain reaction, further heightening tensions in an already strained industrial relations system in advanced capitalist countries.

The universal and particularistic limitations of the private pension system, and the corresponding underdevelopment of the state pension system, resulting in the impoverishment and marginalization of the elderly, are ultimately related to a series of economic and power relationships based on the organization and imperatives of a capitalist economy. Under conditions of advanced capitalism, the private pension system's investment and capital accumulation function has been transformed from a latent to a manifest function so as to generate macro-economic investment and to supply investment capital to the corporate sector and social capital for the state to meet their respective finance requirements. The limitations of the private pension system in the final analysis are related to the role performed by pensions funds as institutional investors in the capital market, the power of private pension funds, and the private pension system's relationship to the corporate sector under conditions of advanced capitalism. These subjects are examined in the forthcoming chapters.

CHAPTER 6

THE PENSION SYSTEM SAVING, INVESTMENT AND CAPITAL ACCUMULATION FUNCTION

"It is always the direct relation of the owners of the means of production to the direct producers which reveal the...hidden foundation of the entire social structure...The form of this relation...corresponds to a definite stage in the development of labor and its social productivity. This does not prevent the same economic basis from showing infinite variations and gradations in its appearance even though its principal conditions are...the same."

Karl Marx

6.1 Introduction

"Some institutions shape modern society," Mills observed, "others adapt to it."¹ In the post-war era institutional investors have increasingly influenced the course of economic events. Institutional investors, including pension funds, now occupy the "commanding heights" of the economy. In the future institutional investors and pension funds will exhibit an even more pronounced impact upon economic affairs. The economic function, structure and power associated with the private pension system under advanced capitalism are central to the political economy of pensions. These subjects are examined in Chapters 6 to 9. Because capital is the heart of capitalism, the private pension system is now integral to the functioning of that economic system and must be critically analysed.

The central purpose of this chapter is to identify and investigate the private and public pension system's manifest saving, investment and capital accumulation function under advanced capitalism. This is the pension system's functional locus of power. The methodology followed in this chapter is to trace the stream of personal and gross savings channelled

through the pension system into gross and net investment for the economy. Under advanced capitalism there has been an institutionalization and socialization of retirement savings through the pension system, broadly defined, to supply the investment requirements of the macro-economy.

A related topic is the transformation of the private pension system's saving, investment and capital accumulation function from a latent to a manifest function under advanced capitalism so as to channel investment capital to the private sector and social capital to the capitalist state. The private pension system's capital accumulation function is important not only for the private pension industry, but is critical for all of organized capital. This is because the private pension system's impact on saving, investment and capital accumulation affects the broad general interests of both financial and industrial capital. The overt economic function of the private pension system under conditions of advanced capitalism is to organize and channel investment capital to the corporate sector. As a result of the symbiotic relationship between the private pension system and the corporate sector, the direction and mode of pension reform is of considerable significance because it affects an important source of investment capital for the private sector. The increased appropriation of the discretionary savings of workers by the private pension industry as a source of investment capital for the corporate sector has been a protracted historical process.

6.2 Historical Background: From Latent to Manifest Capital Accumulation Function

The transformation of the private pension system's saving, investment and capital accumulation function from a latent to a manifest, or explicit, function under conditions of advanced capitalism mirrors the evolution of capitalist economies and the changing historical requirements of the corporate sector. The private pension industry in Britain, Canada and

the United States has exhibited a continuous and pronounced hostility to the expansion of the state social security system. The reasons for this antipathy, however, have changed as the relationship between the pension system and the capital accumulation process has become more explicit.

In Britain between 1910 and 1911 the Combine, an association of life insurance companies lead by the gigantic Prudential Life, mounted a concerted campaign against the health sections of the National Insurance Act 1911.² According to Yeo "it was up to then the most aggressive parliamentary lobby mounted by capital."³ The commercial insurance lobby's "enemy was not the state, but the originally designated operators of the national insurance plan, the British friendly societies. At that time it was private, not government, competition they sought to destroy."⁴ The earlier proposed state-run contributory pension was opposed, as well, by the provident and friendly societies because it was viewed as a competitor for the savings of the working class.⁵ In general "despite earlier labour sentiment on the subject, private insurance outside the state system was left untrammelled."⁶

In the United States at the beginning of the century, according to Lubove, "a large number of private vested interests", such as Fredrick Hoffman of the Prudential Life Insurance Company (U.S.), viewed government sponsored social insurance arrangements "as a threat to their survival."⁷ Many industrial employers argued that a government pension program would restrict the role of the private pension system.⁸ Suggestions that the United States emulate a number of Western European countries and enact old-age assistance legislation met with considerable opposition. The U.S. Congress rejected bills introduced in 1909, 1911 and 1913.⁹ During the 1920s "the main reason for the failure" of the social insurance movement "was the effective opposition inspired by business organizations" such as the Chamber of Commerce and the National Association of Manufacturers at the state level.¹⁰

Public pensions in Canada, according to Bryden, "were unmistakably stamped with the market ethos" as a result of the influence of the private pension industry.¹¹ Opposition to the introduction of an universal state retirement pension in Canada at the turn of the century resulted in the voluntary Annuity Act 1908 because the insurance industry "viewed government competition with disfavor."¹² The introduction of the means-tested, flat-rate Old Age Survivors (OAS) pension was delayed until 1927, and was not made universal until 1952. Neither the 1951 Old Age Security Act nor the Old Age Assistance Act "was intended as a complete pension, but instead formed... a subsistence supplement."¹³ The private pension industry opposed the introduction of the earnings-related Canada/Quebec Pension Plans (C/QPPs) and tried "to block public invasion of the contributory field" because of "the threat... which... was posed for the ... sale of annuities and private pension plans."¹⁴

The economic insecurity experienced by Canada's elderly is a result of the universal limitations of the private pension system and the underdevelopment of the public pension system. The reason for the current underdevelopment of the state pension system in Canada was made clear by the former federal Minister of Health and Welfare, the Honourable Monique Bégin, when she candidly stated that "the Canada Pension Plan was designed in the 60's... for the very purpose of leaving the private sector the scope that it needed."¹⁵ The private pension industry has been allowed to operate by the welfare state so that it could retain its market share and protect its profits. The underdevelopment of the public pension system ensures the continued existence of the private pension industry. This not only reflects the capitalist state's ideological bias,¹⁶ but, more fundamentally, mirrors the broader structural imperatives of a capitalist economy for saving, investment and capital accumulation.

6.3 The Pension System's Manifest Capital Accumulation Function: Overview

The role of the institutional investor in the United States and Britain has received considerable attention and study, but, little is known about the functioning and behaviour of institutional investors in Canada and their impact on the economy.¹⁷ The immense economic power concentrated in institutional investors, including pension funds, ultimately resides in their role as financial intermediaries and their ability to meet the investment requirements of the economy and the private profit-making corporate sector.

The role of institutional investors and pension funds, as part of the finance sector, and their control over savings and the direction of investment is of considerable importance for public policy as it relates to the reform of the retirement income system. The Government of Saskatchewan in its 1981 brief to the National Pensions Conference noted, for example, that pension

funds are now sufficiently large to raise concerns regarding their impact on the efficient functioning of capital markets, and their effects on economic growth and development.

Moreover, pension fund assets are largely controlled by relatively few actors - a small number of large, independent pension plans, the major trust companies, and the main insurance companies. This concentration of control, with its overlap to other major institutional investors - trust and insurance companies - reinforces concerns regarding the public policy implications of the growing power of Canada pension funds.¹⁸

The economic power of pension funds and the private pension system is substantial, as shall be demonstrated, and is certain to increase in the future.

The private pension system fulfills a role, not only in the provision of retirement income, but is now a primary source of investment to augment private sector capital accumulation. Institutional investors and pension funds have assumed their preeminent position and economic power because they have acquired "the organized concentration of control over the 'economic surplus'."¹⁹ According to Clement

control over decisions about reallocating these funds gives those in command great power. By mobilizing the capital of others, the financial elite is the central node intermediating between accumulation and investment. It does not use its own capital; on the contrary, its specialty is gathering together the reserves of [workers] through such devices as pension funds, savings accounts, life insurance policies and other devices to centralize the control of reserve capital. This is the enormous power concentrated at the top of these institutions in the hands of the economic elite.²⁰

The reserve capital channelled through financial intermediaries and institutional investors is of increasing importance to the corporate sector. In Britain, according to the Radcliffe Report, insurance companies and pension funds now "constitute by far the largest single source of new capital."²¹ The role played by pension funds in supplying the finance requirements of the private sector is increasingly perceived and recognized by the business community. According to one major Canadian trust company, for example, "pension assets are an integral part of our socio-economic system and contribute substantially to...capital formation."²²

The increasing economic power of pension funds is based on their pivotal role as financial intermediaries and institutional investors, with significant control over the economic surplus and reserve capital. In a capitalist economy the function of institutional investors, including pension funds, is to channel personal savings into investment for private sector capital accumulation and profits. Private pension funds as financial intermediaries and institutional investors therefore serve a crucial role in the circulation and reproduction model associated with a capitalist economy: saving, investment, capital accumulation and profits.

6.4 The Savings Function

Institutional investors, and pension funds as a "region" within the finance sector, are mobilizers of capital, linking savers and investors in the

economy. Banks, trust companies, life insurance companies and pension funds as financial intermediaries and institutional investors accumulate the savings of ordinary citizens into vast pools of money which are channeled as investment to the industrial and finance sectors of the economy.

The economic and social implications of the private and state pension systems are of major consequence with respect to savings behaviour, investment, economic growth, the functioning of financial institutions, and the operation of capital markets. The private pension system has become "one of the principal means for channelling peoples' savings into industrial and commercial investment...and...into securities to help finance public expenditure."²³ Saving and investment through the pension system, broadly defined, becomes capital in the course of the macro-economic circulation and reproduction process. For workers, however, occupational pensions constitute no more than a form of forced savings, or at best a "deferred wage", because these funds are never used as their capital.²⁴

The economic power of pension funds is based on its control over savings or reserve capital. To establish the growing importance of the private pension system in supplying the investment and finance requirements of the private and public sectors, it is necessary to determine the sources, magnitude and extent of control over the savings available for investment purposes.

In Canada between 1954-1956 and 1975-1977 personal saving as a proportion of gross saving increased significantly, while corporate saving declined (Table 6.1). Corporate saving (retained earnings plus depreciation allowances) peaked in the mid-1970s and has steadily declined since that time. Concurrently, there has been a long-run decline in corporate liquidity.²⁵ This has forced corporations to seek external sources of financing by the sale of stock (new or primary market equity issues), long-term debt (bond and mortgages) and short-term debt instruments (bank

TABLE 6.1
COMPOSITION OF GROSS SAVING
AS A PROPORTION OF GNP,
BY SOURCE, CANADA,
THREE-YEAR AVERAGES, 1954-1956 AND 1975-1977

| <u>Sources of Gross Saving</u> | <u>% of GNP</u> | | <u>Percentage Change</u> |
|------------------------------------|-----------------|----------------|--------------------------|
| | <u>1954-56</u> | <u>1975-77</u> | |
| Personal Saving | 30.5 | 43.7 | +43.3 |
| Corporate Saving | 45.1 | 41.0 | -9.1 |
| Government Saving | 13.4 | 5.1 | -61.9 |
| Foreign Saving | 10.8 | 10.6 | -1.9 |

Source: Economic Council of Canada, One In Three: Pensions for Canadians to 2030 (Hull: Canadian Government Publishing Centre, 1979), Table 5-1, p. 44.

loans, commercial paper and so on). This combination of events has placed the corporate sector under increasing strain to satisfy its finance requirements. On this subject the Economic Council of Canada was to state that

since 1960, there has been a rise in the importance of savings by the personal and unincorporated business sector and a concomitant decline in the relative importance of corporate savings. The corporate sector has...been the largest user of funds and has consistently relied on the savings of the other sectors, notably on personal savings, in the form of bonds, insurance and pension plans, and personal holdings of money. With rising inflation and the consequent drain on corporate liquidity, the magnitude of these borrowings has grown.²⁶

Personal saving provided through institutional channels has increasingly been substituted for the relative decline in corporate saving for investment purposes. "Private pension plans," according to the Economic Council of Canada, "will remain an important source of savings as the number of contributors grow and as more employees put larger amounts of current income aside."²⁷ The magnitude of and control over personal saving by institutional investors and pension funds is therefore of considerable economic and social significance.

To determine the extent of the private pension system's control over the increasing proportion of personal saving (Table 6.1), it is necessary

to establish the relationship between net pension saving (contributions plus investment income minus benefits and administrative costs) and total personal saving, and net pension saving and gross saving in the economy. The savings of the many in the personal sector become investment for the private sector. Financial intermediaries and institutional investors, such as pension funds, link the personal to the corporate sector in terms of saving and investment behaviour.

In order to facilitate this analysis a comparative time-series has been constructed for Canada, Britain and the United States between 1960 and 1980. Table 6.2 reports net private, public and total (private plus public) pension fund saving as a proportion of total personal saving. This indicator establishes the proportion of total personal saving controlled by pension funds. The method used here is the "identified savings" approach, rather than the "residual" approach.²⁸ Imperfect information has required the use of somewhat different definitions of private pension saving in each of these countries. As well, personal retirement savings vehicles such as Individual Retirement Accounts (IRAs) in the U.S. and Registered Retirement Savings Plans (RRSPs) in Canada are excluded. Pension saving is treated as "contractual" (or compulsory) rather than as "discretionary" savings. For this reason it was deemed more appropriate to relate net pension saving to total personal saving rather than to personal disposable income. Table 6.3 presents net private, public and total (private and public) pension fund saving as a proportion of gross saving. This identifies the magnitude and importance of net pension saving as a component of gross saving for investment. Background work for Tables 6.2 and 6.3 is presented in Appendix E.

6.4.1 Pension Saving in Relation to Personal Saving. Pension saving is a major component of personal savings and is increasingly channelled to the private sector for investment. The proportion of total

personal saving channelled through and controlled by the private and public pension systems is reported in Table 6.2. In this regard, the following may be noted with respect to net pension saving as a component of total personal saving.

First, net pension saving under the domination of the private pension system is a significant component of total personal saving. For Canada and Britain, where complete information is available, net private pension saving in 1980 represented 46 and 37 per cent of total personal saving respectively. This means that nearly one-third to one-half of all personal saving in these countries is channelled through and controlled by the private pension system. Between 1960 and 1980, in the case of Canada, net private pension saving increased from nearly 30 to 46 per cent of total personal saving, or by some 58 per cent. This is generally consistent with expanded occupational pension plan coverage and increasing employer and employee contributions during this period. In Britain, the relatively lower and fluctuating level of net private pension saving is most likely explained in terms of the absolute decline and stagnation in occupational pension scheme membership after 1967.

Second, net pension saving from the public pension system constitutes a moderate proportion of total personal saving. In Canada, after the Canada/Quebec Pension Plans were introduced in 1966, net public pension saving represented 22 to 33 per cent of total personal saving. After 1975, however, net public pension saving declined and has remained within a stable range. Public pension saving in Canada is now in the order of 15 per cent of total personal saving. The relative decline in net public pension saving as a percentage of total personal saving in recent years is explained on the basis of the inordinately low and constant level of C/QPP contributions since the inception of the plans. Thus, as total personal saving has increased, net public pension saving has relatively declined. In Britain,

TABLE 6.2

NET PRIVATE AND PUBLIC PENSION FUND SAVING¹
AS A PERCENTAGE OF
TOTAL PERSONAL SAVING,
U.K., CANADA, AND U.S., 1960-1980

| Year | Net Private ² | | | Net Public | | | Total Net | | |
|------|--------------------------|--------|------|--------------------------|---------------------|-------------------|---------------------------------|--------|------|
| | Pension Saving as a % | | | Pension Saving as a % | | | Pension Fund Saving | | |
| | of Total Personal Saving | | | of Total Personal Saving | | | as a % of Total Personal Saving | | |
| | U.K. | Canada | U.S. | U.K. ³ | Canada ⁴ | U.S. ⁵ | U.K. | Canada | U.S. |
| 1960 | 41.7 | 29.3 | 30.5 | 5.5 | - | 3.6 | 47.2 | 29.3 | 34.1 |
| 1965 | 36.8 | n.a. | 27.9 | 10.2 | - | -0.3 | 47.0 | n.a. | 27.6 |
| 1970 | 32.1 | 33.3 | 21.2 | 10.7 | 33.3 | 5.2 | 42.8 | 66.6 | 26.4 |
| 1971 | 43.4 | n.a. | 28.5 | 16.9 | 28.9 | 3.3 | 60.3 | n.a. | 31.8 |
| 1972 | 34.7 | n.a. | 37.3 | 11.5 | 27.5 | 5.1 | 46.2 | n.a. | 42.4 |
| 1973 | 31.5 | 31.3 | 22.0 | 10.9 | 23.9 | 2.8 | 42.4 | 55.2 | 24.8 |
| 1974 | 34.9 | 33.8 | 16.1 | 12.3 | 22.1 | 3.1 | 44.2 | 55.9 | 19.2 |
| 1975 | 39.1 | 26.0 | 16.8 | 15.2 | 13.8 | 0.7 | 54.3 | 39.8 | 17.5 |
| 1976 | 44.0 | 30.6 | n.a. | 16.5 | 16.4 | -0.5 | 60.5 | 47.0 | n.a. |
| 1977 | 45.4 | 35.3 | n.a. | 14.0 | 16.6 | -1.8 | 59.4 | 51.9 | n.a. |
| 1978 | 37.6 | 38.8 | n.a. | 16.3 | 15.6 | -3.8 | 53.9 | 54.4 | n.a. |
| 1979 | 40.3 | 42.7 | n.a. | 9.4 | 16.3 | -0.9 | 49.7 | 59.0 | n.a. |
| 1980 | 37.0(E) | 46.2 | n.a. | 8.6 | 15.4 | 0.2 | 45.5(E) | 61.6 | n.a. |

- Notes: 1. Net pension fund saving is equal to contributions plus investment income minus benefits and administrative costs. Administrative costs are of a second order magnitude and have been omitted from the calculations.
2. For the U.K., includes non-insured, insured and general revenue financed occupational pension plans. For Canada, only trustee (non-insured) pension plans are included.
3. National Insurance Fund contributory retirement benefits. Excludes pay-as-you-go (PAYGO) plans such as the Central government and para-public sector plans.
4. Canada and Quebec Pension Plans beginning in 1966. Excludes general revenue pay-as-you-go (PAYGO) federal and provincial civil service pension plans.
5. OASI retirement benefits. Excludes general revenue pay-as-you-go (PAYGO) federal and state retirement systems.

Sources: Calculated from the Central Statistical Office, Annual Abstract of Statistics, 1982 (London: HMSO, 1982), Table 3.11, pp. 62-63 and Table 14.7, p. 350; Central Statistical Office, National Income and Expenditure (London: HMSO, various years); Central Statistical Office, Financial Statistics (London: HMSO, various years); G. Francis Green, The Increase in Aggregate U.K. Pension Savings. Kingston Polytechnic, Discussion Paper in Political Economy No. 28, 1980, revised table 1, p. 3; Statistics Canada, Trustee Pension Plans Financial Statistics, 1980 (Ottawa: Minister of Supply and Services, various years); Table IV, p. 12; Health and Welfare Canada, Canada Pension Plan Annual Report (Quebec City: n.p., various years); Statistics Canada, Canadian Regie des Rentes, Quebec Pension Plan Annual Report (Quebec City: n.p., various years); Statistics Canada, Canadian Statistical Review (Ottawa: Minister of Supply and Services, various years) and the U.S. Department of Commerce, Statistical Abstract of the United States (Washington, D.C.: GPO, various years), Series 534, 547, 700 and 718. Note Appendix E.

net pension saving from the public pension system increased by a factor of three between 1960 and 1977, from 5.5 to 16.5 per cent of total personal saving. This is largely attributable to increasing total National Insurance Fund contributions over this period. The Social Security Pensions Act 1975, with its provisions for the "contracting-out" of the state earnings-related pension plan by approved occupational pension schemes, came into operation in April 1978. This largely explains the sharp decline in net public pension saving from 16 to 9 per cent of total personal saving recorded after 1978. Third, total (private and public) net pension saving represents a significant component of total personal saving. In Canada 62 per cent of total personal saving is a result of net public and private pension saving; in Britain 46 per cent of personal saving is derived from total pension saving.

The trends outlined here are generally compatible with those found by Green for Britain²⁹ and Samur, Jarvis and McCracken for Canada,³⁰ with respect to contractual saving (mortgage repayments plus the savings portion of trustee pension plans and life insurance) and private pension saving as a proportion of disposable personal income. In Britain contractual saving increased from 4.3 to 6.4 per cent of personal disposable income between 1960 and 1978.³¹ In Canada, contractual saving increased from 4.2 to 4.8 per cent of personal disposable income between 1966 and 1977. Private pension saving dominates contractual saving, accounting for 60 per cent of the total. Trustee pension fund saving rose from 2.0 to 3.0 per cent of personal disposable income and is now the second largest component of the personal savings rate.³²

Net private, public and total pension savings have increased significantly over the past twenty years and now represent a major component of total personal savings. It is generally accepted that power follows money. Control over and direction of this reserve capital, therefore, concentrates enormous economic power in the hands of financial

intermediaries and institutional investors, and in particular, private pension funds. Savings in the personal sector is channelled as investment through financial intermediaries to the corporate sector. It is therefore necessary to determine the level of net pension saving as a proportion of gross saving in order to ascertain the pension system's impact on investment for the economy.

6.4.2 Pension Saving in Relation to Gross Saving. Financial intermediaries and institutional investors such as private pension funds, organize, channel and direct money capital into profitable investment. In the classical, neo-classical and Marxian circulation and reproduction models, savings is equal to investment ($S=I$) at the macro-economic level. Net pension saving as a proportion of gross saving is an indicator of the pension system's importance in supplying saving for investment. Table 6.3 reports net pension saving as a proportion of gross saving for Canada, Britain and the U.S. between 1960 and 1980.

The following may be noted. First, net pension saving as a proportion of gross saving flowing from the private pension system in Britain and Canada, where complete information is available, is a significant and growing component of gross savings. In 1980 net private pension saving accounted for nearly 20 per cent of gross saving in the U.K. and 14 per cent in Canada. For comparable time periods, net pension saving in the U.S. as a proportion of gross saving was of the same order of magnitude as in Canada. In Canada, if net pension saving from unfunded (pay-as-you-go) government employee pension plans was included, net private pension saving as a proportion of gross saving would be in the order of 20 per cent.³³ Between 1960 and 1980 net private pension saving as a percentage of gross saving increased in the U.K. by 91 per cent and in Canada by 67 per cent.

The advanced funding of occupational pension plans, resulting in the accumulation of a fund, is the mechanism through which private pension

TABLE 6.3

**NET PRIVATE AND PUBLIC PENSION FUND SAVING!
AS A PERCENTAGE OF**

**GROSS SAVING,
U.K., CANADA, AND U.S., 1960-1980**

| Year | Net Private ² | | | Net Public | | | Total Net | | |
|------|--|---------|------|--|---------------------|-------------------|---|--------|------|
| | Pension Saving as a % of Gross Saving | | | Pension Saving as a % of Gross Saving | | | Pension Fund Saving as a % of Gross Saving | | |
| | U.K. | Canada | U.S. | U.K. ³ | Canada ⁴ | U.S. ⁵ | U.K. | Canada | U.S. |
| 1960 | 10.2 | 8.1 (E) | 7.4 | 1.4 | - | 0.9 | 11.6 | 9.0 | 8.3 |
| 1965 | 10.5 | n.a. | 7.8 | 2.9 | - | -0.1 | 13.4 | n.a. | 7.7 |
| 1970 | 8.1 | 7.0 | 7.9 | 2.9 | 7.0 | 1.9 | 11.0 | 14.0 | 9.8 |
| 1971 | 10.2 | n.a. | 9.5 | 3.9 | 6.3 | 1.1 | 14.1 | n.a. | 10.6 |
| 1972 | 11.2 | n.a. | 10.6 | 3.7 | 5.9 | 1.4 | 14.9 | n.a. | 12.0 |
| 1973 | 10.5 | 7.3 | 7.4 | 3.7 | 5.6 | 0.9 | 14.2 | 12.9 | 8.3 |
| 1974 | 12.6 | 7.3 | 6.0 | 4.4 | 4.8 | 1.1 | 17.0 | 12.1 | 7.1 |
| 1975 | 16.1 | 7.9 | 7.2 | 6.3 | 4.2 | 0.3 | 22.4 | 12.1 | 7.5 |
| 1976 | 15.4 | 8.9 | n.a. | 5.8 | 4.8 | -0.2 | 21.2 | 13.7 | n.a. |
| 1977 | 14.8 | 10.2 | n.a. | 4.6 | 4.8 | -0.4 | 19.4 | 15.0 | n.a. |
| 1978 | 15.2 | 11.3 | n.a. | 6.6 | 4.8 | -0.8 | 21.8 | 16.1 | n.a. |
| 1979 | 14.3 | 11.7 | n.a. | 4.0 | 4.5 | -0.2 | 21.3 | 16.2 | n.a. |
| 1980 | 19.5 (E) | 13.5 | n.a. | 4.6 | 4.5 | 0.1 | 24.1 (E) | 18.0 | n.a. |

Note: 1. The sources of gross savings are defined as the sum of persons and unincorporated business (personal saving) plus corporate and government business enterprises (undistributed profits, government business enterprises, capital assistance and inventory valuation adjustment) plus government and non-residents plus capital consumption allowances. See Table 6.2 for footnotes.

Sources: See Table 6.2 and Appendix E.

saving is organized and subsequently invested. The level of net private pension saving as a percentage of gross saving is a function of both the relationship between private pension contributions and benefit payout (numerator) and the level of gross savings (denominator). The increase in net private pension saving in Canada and the U.K. as a proportion of gross saving is generally explained in terms of greater pension contribution inflow in relation to benefit payout and gross savings. Increased net private pension saving in Canada as a proportion of gross saving is attributable to expanded occupational pension plan coverage and higher absolute employee and employer contribution levels. In Britain, despite the absolute decline in occupational pension scheme members after 1967, there was an increase in contributions per member as a result of inflated salary levels and preservation (vesting) provisions under the 1975 legislation requiring higher employer and employee contributions.³⁴ Net private pension saving as a proportion of gross saving identifies the pool of money capital available to the private pension system for investment. These data indicate that saving from the private pension system over the past twenty years has become an increasingly significant component of gross saving.

Second, net pension saving from the public (state) pension system, while considerably less than that flowing from the private pension system, nevertheless represents a modest proportion of gross saving. Net savings accumulated through the public pension system, however, does not necessarily generate investment to augment capital stock since it is often used to finance current government expenditures. In 1980 net public pension saving in both the U.K. and Canada was in the order of 5 per cent. In Canada, after the introduction of the Canada/Quebec Pension Plans in 1966, net public pension saving levelled off. The modest level of net public pension saving in Canada, despite the low level of contributions, is explained in terms of increasing C/QPP coverage and contributions due to an

expanding labour force, and as a result of the Quebec Pension Plan being partially funded. These factors have generated a modest reserve fund. In Britain, the level of net saving attributable to the National Insurance Fund's retirement pension is a result of the maturity of the system and a much higher level of contributions. In the U.S. the social security retirement system has been in a dissaving position in recent years due to its chronic deficit position, resulting in a drag on net pension saving.

Third, total (private and public) net pension saving in the U.K. and Canada, where complete information is available, has doubled between 1960 and 1980 and now accounts for 21 per cent of gross saving in the U.K. and 18 per cent in Canada. This means that nearly one-fifth of all gross investment in these countries is supplied through the pension system broadly defined. In Canada, if a broader definition of retirement savings were used so as to include all public and private occupational pension plans as well as individual retirement savings vehicles such as RRSPs, in the period between 1972 and 1976, "23 per cent of the capital stock - factories, homes, schools, roads, ... put in place... was financed by [retirement] savings."³⁵ This information confirms that savings undertaken for retirement purposes, and channelled through the pension system, play an important, if not vital, role in the provision of investment for capitalist economies.

6.5 The Investment Function

Pension funds and other institutional investors in Canada, Britain and the U.K. in the post-war period have assumed an increasingly important role in supplying the capital resources of these advanced capitalist economies. According to the Toronto Stock Exchange, institutional investors and pension funds "have vitally influenced macro-economic performance."³⁶ "Private sector pension plans," the Trust Companies Association of Canada asserts, "are a major savings vehicle...and thus a major source for financing...capital requirements."³⁷ And prominent

investment managers in the U.K. maintain that private pension funds "increase the flow of money available for capital investment in the most productive and profitable enterprises and thus encourage economic growth."³⁸

Private pension fund saving is now viewed by the corporate community as playing a strategic role in generating current and future investment for the private profit-making sector of the economy. In advanced capitalist economies the needs of the private sector require an increased interpenetration and interdependence of capital. The modern institutional investor and the private pension system have assumed the function of socializing investment by being a conduit for savings. This accelerates the general socialization of the capitalist mode of production. To assess the economic power of the private pension system and its impact on the economy and capital markets requires that pension saving be related to the current and projected investment requirements of the corporate sector.

6.5.1 Pension Saving in Relation to Current Investment. In order to establish the significance of net saving flowing from the private pension system for investment in and by the corporate sector and the economy, two indicators have been constructed. The first, outlined in Table 6.4, reports net private pension saving as a percentage of gross fixed domestic business investment. That is, pension saving is related to the replacement of and addition to capital stock. The second and more significant indicator, reported in Table 6.5, relates net private pension saving to net private domestic investment (capital formation); that is, depreciation (capital consumption allowances) in current dollars, on a replacement cost basis, is deducted from gross fixed private domestic capital formation to arrive at the "net new" addition to capital stock. Therefore, net private pension saving as a percentage of net private domestic investment is an indicator of

the proportion of new private sector capital formation financed through the private pension system.

Private pension saving as a proportion of gross private domestic investment has increased significantly over the past twenty years, particularly in the U.K. and Canada. This is reported in Table 6.4 and Appendix F. Specifically, net pension saving from the private pension system now represents 26 per cent of gross domestic investment in the U.K., 16 per cent in Canada, and 11 per cent in the U.S. In Britain and Canada between 1960 and 1980, private pension saving as a proportion of gross private investment has doubled. The variation in the order of magnitude, particularly in recent years, is largely explained by the difference in the personal savings rate in each of these countries. In the late 1970s, the personal saving rate was in the order of 15 per cent in the U.K., 10 per cent in Canada, and 5 per cent in the U.S.³⁹ The significance of private pension saving as a proportion of gross private domestic investment is that a diminution of private pension saving would force the business sector to secure alternative sources of funding, such as increased foreign investment, to meet their finance requirements. Capital would become more expensive and corporations would have to either slow their rate of expansion or use capital resources more efficiently.

The full impact and significance of private pension saving for business investment becomes evident when related to net private domestic investment. This is presented in Table 6.5. Net private domestic investment is equal to gross private domestic investment minus depreciation (capital consumption) allowances. This is a measure of the addition to or new investment generated from that portion of capital stock replaced and financed by capital consumption (depreciation) allowances included in gross domestic private investment (Table 6.4). Net private pension saving as a percentage of net private domestic investment therefore represents that

TABLE 6.4
NET PRIVATE PENSION SAVING
AS A PERCENTAGE OF GROSS PRIVATE DOMESTIC INVESTMENT,
CANADA, BRITAIN, AND U.S., SELECTED YEARS, 1960-1980

| Year | Net Private Pension Saving ¹ (Billion National Currency Units) | | Gross Private Domestic Investment ² (Billion National Currency Units) | | Net Private Pension Saving as a % of Gross Private Domestic Investment | | | | |
|------|--|----------------------|--|--------|--|-------|--------|---------|------|
| | Canada | Britain | U.S. | Canada | Britain | U.S. | Canada | Britain | U.S. |
| | | | | | | | | | |
| 1960 | 0.4 | 0.5 | 6.0 | 6.5 | 3.7 | 75.9 | 6.8 | 13.5 | 7.9 |
| 1965 | n.a. | 0.7 | 9.4 | 10.3 | 5.5 | 113.5 | n.a. | 12.7 | 8.3 |
| 1970 | 1.3 | 1.1 | 11.8 | 14.3 | 8.0 | 144.2 | 9.1 | 13.8 | 8.2 |
| 1975 | 3.2 | 3.6 | 15.8 | 37.7 | 17.4 | 206.1 | 8.5 | 20.7 | 7.7 |
| 1980 | 9.0 | 9.4(E ³) | 44.4(E ⁴) | 57.4 | 35.7 | 402.3 | 15.7 | 26.3 | 11.0 |

- Notes: 1. Net pension saving is equal to contributions plus investment income minus benefits and administrative costs. Administrative costs are of a second order magnitude and have been omitted from the calculations.
2. Including residential and non-residential construction and machinery and equipment expenditures by the private sector including government enterprises (excluding government departments) plus capital consumption allowances.
3. In 1979 the net growth in funds was £ 8.1 billion. This was extrapolated on the basis of the long term growth rate.
4. Estimated on the basis of the 1975 relationship between Canadian and U.S. private pension saving and is included for the purpose of illustration only.

Sources: Calculated from Appendix E and F and Statistics Canada, "Capital and Repair Expenditures", CANSIM Series and information supplied by Statistics Canada, Construction Division; Central Statistical Office, Annual Abstract of Statistics (London: HMSO, various years); Central Statistical Office, National Income and Expenditure (London: HMSO, various years) and the U.S. Department of Commerce, Statistical Abstract of the U.S., 1982-83 (Washington, D.C.: GPO, 1982), Series 690, p. 419 and Series 905, p. 539.

proportion of new business investment financed through the private pension system.

Net private pension saving as a proportion of net investment is dramatically greater than as a component of gross investment. As reported in Table 6.5, private pension saving is equivalent to 90 per cent of net private domestic business investment in the U.K., 41 per cent in the U.S., and 27 per cent in Canada. This means on average in excess of 50 per cent of all new business investment in these countries is financed by the increasing level of personal savings channelled through the private pension system.

The proportion of net business investment financed by the private pension system doubled in the U.S. and Canada and tripled in Britain, between 1960 and 1980. Net private pension saving in Canada rose from 16 to 27 per cent of net private investment. In the U.S., net pension saving jumped from 20 to 41 per cent of net private investment, while in Britain it soared from 30 to 90 per cent of net domestic business capital formation. The difference between Canada in one instance, and the case of Britain and the U.S. in another, merits some elaboration, particularly the extraordinary situation found in the U.K. and U.S.

The increase in private pension saving as a proportion of net private investment is caused by two factors. First, the significant increase in net pension saving is a result of accelerating contribution inflow relative to net private investment. Pension saving in all of these countries increased at a faster rate than net private investment, resulting in a higher ratio of pension saving to net investment. Furthermore, while net private investment in Canada between 1960 and 1980 increased by a factor of 12, in the U.S. net investment declined between 1965 and 1975 by nearly 20 per cent. Thus, in the U.S., the dramatic increase in the proportion of business investment financed by net private pension saving was due to increased pension saving relative to a decline in net investment.

TABLE 6.5

NET PRIVATE PENSION SAVING
AS A PERCENTAGE OF NET PRIVATE DOMESTIC INVESTMENT,¹
CANADA, BRITAIN, AND U.S., SELECTED YEARS, 1960-1980

| Year | Net Private Pension Saving (Billion National Currency Units) | | | Net Private Domestic Investment (Billion National Currency Units) | | | Net Private Pension Saving as a % of Net Private Domestic Investment | | |
|------|---|---------|----------|---|---------|-------|--|---------|------|
| | Canada | Britain | U.S. | Canada | Britain | U.S. | Canada | Britain | U.S. |
| 1960 | 0.4 | 0.5 | 6.0 | 2.7 | 1.7 | 9.6 | 16.3 | 29.4 | 20.2 |
| 1965 | n.a. | 0.7 | 9.4 | 5.4 | 2.5 | 57.5 | n.a. | 28.0 | 16.4 |
| 1970 | 1.3 | 1.1 | 11.8 | 7.8 | 3.2 | 56.2 | 16.7 | 34.4 | 20.9 |
| 1975 | 3.2 | 3.6 | 15.8 | 20.9 | 5.7 | 46.8 | 15.3 | 63.2 | 33.8 |
| 1980 | 9.0 | 9.4 (E) | 44.4 (E) | 33.2 | 10.5 | 109.1 | 27.1 | 89.5 | 40.7 |

Note: 1. Net private domestic investment is equal to gross fixed private domestic capital formation minus capital consumption (depreciation) allowances in current dollars, on a replacement cost basis, for the private business sector and public corporations. For footnotes see Table 6.4.

Sources: See Table 6.4

Second, and perhaps more important, particularly in the case of Britain and the U.S., are those causal relationships which determine the level of net private investment. Net private investment is defined as gross private investment minus depreciation (capital consumption) allowances. In Britain between 1960 and 1980, depreciation allowances increased from 54 to 71 per cent of gross private investment; in the U.S. over the same period they increased from 61 to 74 per cent. In Canada, however, capital consumption allowances declined from 59 to 42 per cent of gross private investment between 1960 and 1980. As depreciation allowances increase, there is a corresponding reduction in net private investment. Therefore, the unusually high level of net private investment generated by the private pension system in Britain and the U.S. is attributable to the relative and absolute increase in private pension saving in relation to the depressed level of net private investment as a result of increased capital consumption allowances.

While varying between countries, the magnitude of net private business investment financed through the private pension system suggests that it is an universal characteristic in these advanced capitalist economies and is critical to the investment and capital accumulation requirements of the economy and private sector. The institutional strength associated with the private pension system, and the political tenacity of the private pension industry, is ultimately related to the enormous pool of savings and assets under its control. This is structurally determined by the private pension system being a financial intermediary and institutional investor, and the function it performs in promoting and serving the general interests of all organized capital by satisfying current and future investment requirements.

6.5.2 Pension Saving in Relation to Future Investment. Private pension saving is perceived by the business community as providing a vital

source of investment capital in the medium and long-term for the corporate sector. It is therefore necessary to determine the importance of personal saving channelled through the private pension system for future private sector investment requirements. The perception of this situation within the business community has important implications for public policy with respect to pension reform.

Future investment requirements can be projected on the basis of econometric models and forecasts. In turn, estimated private pension saving, based on certain demographic assumptions, can be related to projected investment requirements. Such an exercise, however, is fraught with many difficulties and must be viewed with considerable caution. This is particularly the case since macro-econometric forecasts in recent years have been notoriously inaccurate and have fallen into disrepute. Econometric models are constructed on the basis of certain assumptions about economic relationships and behaviour, as well as the external environment. Projected investment requirements are based on assumptions about savings behaviour, particularly the proportion flowing from the personal and corporate sectors. Furthermore, the external environment over the past decade has been extremely dynamic. Double digit inflation, sharply rising and falling energy prices, monetary devaluations and a protracted international recession with accompanying unemployment, have all characterized the international economy. In the case of Canada, which is used here for the purpose of illustration, the National Energy Program and massive investment in energy related mega-projects was anticipated to account for 25 to 40 per cent of all investment over the next twenty years. With the advent of the 1981-1982 world oil glut and the pervasive nature of the international recession, however, projected investment requirements in Canada were revised downwards, although some have argued that these capital requirements have only been postponed. For all of these reasons

long-run capital investment projections must be used and interpreted with care.

Table 6.6 relates estimated net private pension plan saving to near, medium and long-term capital investment projections for Canada. Based on this information, private pension saving in the near term (1976 to 1985) will approximate 12 per cent of gross investment. As was indicated in Table 6.4, however, net private pension saving has already exceeded these projections, increasing from 9 to 16 per cent of gross investment between 1975 and 1980. If private pension saving is of significance in the short-term at the macro-economic level, it may be even more so in terms of corporate financing and the impact upon capital markets. According to a study by the economic consulting firm of Wood Gundy Limited, in Canada between 1981 and 1985, 70 to 80 per cent of all new capital required by industry, and raised through bond and stock issues, is expected to be furnished by private pension funds.⁴⁰ Similarly, in the United States, according to New York Stock Exchange estimates, \$800 billion or nearly 27 per cent of the \$3 trillion needed for new capital expenditures between 1975 and 1985 will have to be raised externally by corporations. Private pension funds are expected to be a major source of this corporate financing.

The medium and long-term projections are of considerable interest. In Canada, over the medium-term between 1981 and 1990, private pension saving is projected to be in the order of 11 per cent of gross private investment, and 9 per cent in the long-term between 1990 and 2000. While this is a modest decline relative to current trends, private pension saving would represent, other factors being equal, 19 per cent of net private investment over the medium-term and 16 per cent in the long-term. However, should the Canadian economy turn around and begin to recover with an accompanying diminution of inflation and the personal savings rate, and a corresponding increase in investment requirements, private pension

TABLE 6.6

ALTERNATIVE PROJECTIONS OF
ESTIMATED TRUSTEED PENSION PLAN SAVING¹
AS A PERCENTAGE OF
FORECAST PRIVATE GROSS INVESTMENT REQUIREMENTS² CUMULATIVE CURRENT BILLION \$,
CANADA, 1976-2000

| Forecast Organization | 1976-1985 | | | 1981-1990 | | | 1991-2000 | | | Cumulative Estimated Trusteed Pension Plan Saving as a % of Forecast Gross Investment Requirements | | |
|--|---------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|---------------------------------|---------------------------------|-------------------------|---------------------------------|---|-----------|-----------|
| | Trusteed Pension Plan Saving | Capital Requirements | Trusteed Pension Plan Saving | Trusteed Pension Plan Saving | Capital Requirements | Trusteed Pension Plan Saving | Trusteed Pension Plan Saving | Capital Requirements | Trusteed Pension Plan Saving | 1976-1985 | 1981-1990 | 1991-2000 |
| Economic Council of Canada ³ | \$79.95 | \$612.0 | \$129.7 | | - | \$338.5 | | - | | 13.1 | - | - |
| Scenario I ⁴ | 79.95 | 784.0 | 129.7 | | - | 338.5 | | - | | 10.1 | - | - |
| Investment Dealers Association | - | - | 129.7 | | \$1,318 | 338.5 | | \$4,197 | | - | 9.8 | 8.1 |
| Royal Bank of Canada | - | - | 129.7 | | 1,271 | 338.5 | | n.a. | | 10.2 | n.a. | |
| Data Resources of Canada | - | - | 129.7 | | 1,118 | 338.5 | | - | | - | 11.6 | n.a. |
| Informetrica | - | - | 129.7 | | 1,155 | 338.5 | | 3,454 | | - | 12.2 | 9.8 |

- Notes: 1. Projected trusted pension plan saving on a cumulative basis, based on information supplied to the author by the Economic Council of Canada using the low demographic growth rate assumption. Saving as a flow has been derived from the stock of pension fund assets.
2. Cumulative forecast for private gross fixed investment including residential and non-residential construction, and repair and machinery expenditures. Projections by economic forecasting organizations.
3. Assuming moderate external growth and energy prices.
4. Assuming favorable external environment and high energy prices.
5. Actual cumulative trusted pension plan saving between 1976 and 1980 plus estimated saving between 1981 and 1985.

Sources: Economic Council of Canada, Twelfth Annual Review: Options for Growth (Ottawa: Information Canada, 1975), Table B-1, p. 136 and Table B-3, p. 138 and information provided to the author March 30, 1982. Andrew G. Kniewasser, President, Investment Dealers Association of Canada, "Address to the 1981 Annual Conference Atlantic Provinces Economic Council", Saint John, New Brunswick, September 29, 1981; Edward P. Neufeld, Senior Vice-President and Chief Executive Officer, The Royal Bank of Canada, "Who Will Finance Canada's Economic Growth in the 1980's?", Address to the Young President's Organization, Vancouver, B.C., October 2, 1981; Data Resources of Canada, Canadian Review (Fall 1982) and Informetrica Ltd., Post-Workshop 1-82 Forecast, July 4, 1982.

saving would play an increasingly important role in financing capital investment in the medium and long-terms. In Britain and the U.S., where private pension saving already has an inordinate impact in the provision of net investment, there is little to suggest that this role will diminish appreciably in the future unless there is a substantial increase in net investment.

These data suggest that personal saving flowing through the private pension system for investment in and by the private sector and economy is now, and will continue to be in the future, a major source of economic power. The importance of private pension saving to finance the future investment requirements of the business community has resulted in a fundamental transformation of the corporate sector's attitude towards the operation of the private pension system under advanced capitalism.

6.6 Pension Saving and Private Sector Investment Requirements

What is recent, and highly significant, is the qualitative change in attitude within and perception by the business community towards the use of private pension fund capital for the explicit purpose of financing the future capital requirements of the corporate sector. This change in outlook is the fundamental explanation for the private pension system's saving and investment role being transformed from a latent to a manifest function. In terms of the broad interests of the business community, the primary purpose of the private pension system is no longer the provision of retirement income, but rather the channelling of investment capital to the corporate sector. As a representative of the Business Committee on Pension Policy stated, "the private sector pension system is tremendously important to the national economy. It is not just a means of disbursing retirement income. It is also a primary source of long-term capital" because "it offers the most rapidly growing pool of private capital in the country."⁴¹

The primary function of the private pension system is now to augment and promote capital accumulation in the private sector. A brief review of the financial and trade literature clearly identifies the change in perception, and emerging consensus, within the business community as to the central purpose of the private pension system under advanced capitalism. The corporate sector today has few reservations about suggesting that the occupational pension fund assets of workers be used to finance the investment requirements of the private sector and that pension fund investment is vital for economic growth and the very survival of capitalism.

The business community in Canada, Britain and the U.S. has a similar perception of the role now performed by the private pension system with respect to supplying the future investment requirements of the corporate sector. The chairman of one of the largest and most influential U.S. pension funds explained the decline in economic growth on the basis of the "inadequate provision of capital" and observed that "private pensions are a powerful source of capital for use in expanding the country's plant [and] equipment",⁴² while a leading U.S. pension industry trade journal carried a feature article significantly entitled "Funds' growth rate staggering; could be major asset pool".⁴³ In Canada the president of a major life insurance company suggested that reform of the private pension system must recognize "the need of the economy for capital."⁴⁴ And a vice-president of a large Canadian corporation was of the view that "the capital needs of the country over the next several decades will require high and sustained levels of pension investment."⁴⁵

The need for capital investment in the long-term is viewed as being so acute among certain segments of the corporate community that some private sector representatives have suggested that the U.S. social security retirement system be fully-funded in order to promote capital

formation.⁴⁶ In Canada, spokesmen for the Government of Ontario in 1977 stated that "Ontario has suggested that we seriously consider fully funding the CPP [Canada Pension Plan] and investing those funds in the private sector."⁴⁷ While Ontario has now seemingly abandoned this position, many within the corporate sector have not. The senior vice-president of Canada's largest bank, for example, has argued that "there will need to be an increase in the relative size of financing going to business" and pension reform will need to address "the question of [state] pension funds going into private sector investments."⁴⁸ Financial commentators readily identified the relationship between pension reform and capital accumulation in that "expansion of the CPP... would reduce pension savings invested in the private sector"⁴⁹ and would "deprive the private sector of... investment capital."⁵⁰

There is complete unanimity between industrial and financial capital with respect to the defense and preservation of the private pension system's now manifest investment and capital accumulation function. At the National Pensions Conference in March 1981 the Canadian Manufacturers Association argued that expansion of the CPP would deprive private industry of a massive pool of funds needed to raise productivity and create jobs.⁵¹ The Toronto Board of Trade maintained that a large proportion of all new capital needed by industry in Canada and invested through new stock and bond issues would be supplied by private pension funds. They argued that "it is vital that these funds should be maintained and should grow. They cannot be replaced by public pension funds."⁵² As suggested by these statements, the private pension system's investment function is now viewed as being critical to capital accumulation in the private sector and vital to the interests of both financial and industrial capital. Access to and control over pension fund capital for investment in the private sector therefore is the fundamental explanatory reason for the

corporate sector's unalterable opposition to the expansion of the public pension system and its staunch defense of the private pension industry.

6.7 Implications of Saving, Investment and Capital Accumulation Function

The pension system under advanced capitalism has assumed a structurally strategic and pivotal position based on its ability to organize and channel savings and investment. The institutional strength and power of the private pension industry in the final analysis is directly related to its functional control over savings and the direction of investment. Saving and investment channelled through the private pension system has been transformed from a latent to a manifest function so as to augment capital accumulation in the private profit-making sector of the economy. This function is now central to the operation of the private pension system under advanced capitalism. The details surrounding this situation can be described and summarized as follows.

As a result of a long-run decline in corporate liquidity, compounded by inflation, corporations have been forced to seek external sources of financing. Personal saving channelled through financial intermediaries and institutional investors such as pension funds has been substituted for the relative decline in corporate saving for the purpose of investment.

Pension saving is now a major component of personal saving. Net total (private and public) pension saving represents 62 per cent of personal saving in Canada and 46 per cent of personal saving in the U.K. In Canada net private pension saving accounted for 46 per cent of total personal saving and 37 per cent of personal saving in the U.K. in 1980. Therefore one-third to one-half of all personal savings in these advanced capitalist countries is channelled through and controlled by the private pension system and industry.

Pension saving has assumed an increasingly significant role in financing the investment requirements of advanced capitalist economies. In the period between 1960 and 1980 total pension saving accounted for an average 20 per cent of gross saving in Canada and Britain, having doubled over this time period. Pension saving generated through the private pension system as a proportion of gross saving increased by 91 per cent in the U.K. and in Canada by 67 per cent between 1960 and 1980.

Private pension saving as a proportion of gross and net private investment has in general doubled over the past twenty years. Pension saving flowing from the private pension system now represents 26 per cent of gross investment in the U.S., 16 per cent in Canada, and 11 per cent in the U.S. More significantly, net private pension saving is equivalent to 90 per cent of net private domestic business investment in the U.K., 41 per cent in the U.S., and 27 per cent in Canada. Therefore in these advanced capitalist economies over 50 per cent of all new investment on average is financed by the increasing level of personal savings channelled through the private pension system.

Pension saving, and that flowing from the private pension system in particular, is now viewed by the corporate sector as generating an important, if not crucial, source of medium and long-term investment capital. In Canada, the private pension system is projected to supply 11 per cent of gross private investment over the medium-term and 9 per cent over the long-term. The private pension system will therefore generate in the order of 19 per cent of net private investment in the medium-term (1981-1990) and 16 per cent of net investment in the long-term (1990-2000), other factors being constant.

The importance of pension saving to finance the future investment requirements of the economy and corporate sector has resulted in a major transformation of the business community's attitude towards the

operation of the private pension system. The private pension system under conditions of advanced capitalism is now explicitly viewed as a mechanism to finance, and a source of investment capital for, the corporate sector. The function performed by the private pension system to augment capital accumulation in the private sector is the primary structural reason for the corporate sector's opposition to an expansion of the public pension system.

Based on this analysis, a number of broad macro and micro-economic and political implications regarding the pension system's saving, investment and capital accumulation function can be identified. First, at a macro-economic level, the pension system's control over saving and investment result in it occupying a position at the "commanding heights" of advanced capitalist economies. In capitalist economies control over and direction of investment is the fundamental source of economic power. The pension system, as a financial intermediary and institutional investor, has thus acquired control over a key economic lever which places it in a pivotal structural position to influence the direction of advanced capitalist economies. Second, the impact of the pension system on macro-economic investment has fundamentally altered the corporate sector's view as to the purpose and functioning of the private pension system under advanced capitalism. This has public policy implications with respect to the mode of pension reform and is discussed in Chapter 7.

At a micro-economic level, the saving and investment function associated with the private and public pension systems has similar important implications. First, the transformation of the pension system from a latent to manifest source of investment capital has resulted in it having an impact on corporate and public sector finance. The pension system at a micro-economic level has become an important source of external financing and investment capital for the corporate sector, and social capital for the welfare state. This is analyzed in the Chapter 7. Second, control over

savings and investment is the private pension industry's functional locus of power, resulting in a considerable concentration and centralization of pension fund capital. The institutional organization of pension fund power is examined in Chapter 8. Third, the investment function associated with the private pension system under advanced capitalism is an integrative mechanism which increasingly facilitates an interpenetration and fusion between industrial and financial capital. This is investigated in Chapter 9.

The pension system's saving, investment and capital accumulation function has political implications. First, in terms of the politics of pension reform, the continued existence and operation of the private pension system, and the investment and capital accumulation function performed by it, is of critical importance to the general interests of both industrial and financial capital. Subordination of the public pension system effectively ensures private sector control over and direction of the increasing proportion of saving and investment channelled through and generated by the private pension system in the general interests of all organized capital. Concurrently, the underdevelopment of the public pension system ensures the institutional survival of the private pension industry by protecting its market share and profits. Functionally there is a symbiotic relationship, that is, a convergence of interests between the private sector's need for increased investment capital cycled through the private pension system and the private pension industry's imperative for institutional survival. As analyzed here, an expanded public pension system would deprive the corporate sector of capital investment and would further diminish the already marginal role played by the private pension system in the provision of retirement income for the elderly described in Chapter 4. The private pension industry and corporate sector may be expected to react accordingly in terms of protecting their structurally determined vested interests. Second, the saving, investment and capital accumulation functions are

intrinsic to the operation of both the private and public pension systems. This suggests, depending upon political circumstance, that the investment function can be used as a mechanism to promote progressive alternative economic strategies at the micro-economic level through the occupational pension system and at the macro-economic level through the state pension system. This subject is elaborated upon in Chapter 10.

The pension system, based on its control over saving and investment, performs a variety of important macro and micro-economic functions under advanced capitalism. The pension system has institutionalized retirement savings and socialized investment. As a consequence, the private pension system is now a major economic actor and dominates capital markets.

CHAPTER 7

THE PENSION SYSTEM AND THE INSTITUTIONALIZATION OF CAPITAL MARKETS

"The continual re-transformation of surplus-value into capital... appears in the... increasing magnitude of capital that enters into the process of production."

Karl Marx

"The stock exchange... as it develops, tends to concentrate all production... so that... [it] becomes the most prominent representative of capitalist production itself."

Frederick Engels

7.1 Introduction

The post-World War II period has witnessed the institutionalization of capital markets and investment through the institutional investor in Canada, Britain and the United States. Institutional investors, including private pension funds, now dominate capital markets. The institutional investor, broadly defined, has increasingly supplanted the saving and investment function performed by individuals. The institutional investor is the modern day Behemoth.

The private pension system, as shall be demonstrated, has a significant impact on capital markets, the pattern of investment for the economy, corporate and public finance, and the ownership of corporate securities. The influence of pension funds and institutional investors on capital markets is now generally acknowledged. The Stock Exchange (London) observed that there is a "growing trend towards the domination of the stock market by the savings institutions."¹ In the United States "most experts in the field foresee further institutionalization of equity markets in

the years ahead."² And in Canada the Toronto Stock Exchange warned that "the trend towards institutionalization will result in... concentration of market power and a generally less efficient allocative mechanism."³ For example, nearly 46 per cent of the dollar value traded on the Toronto Stock Exchange represented institutional investment in 1977.⁴ Trust companies, life insurance companies and pension funds accounted for nearly 60 per cent of all institutional savings.⁵ This indicates the enormous power of the savings being accumulated and invested by institutional investors through capital markets as well as the institutionalization of retirement savings as a source of investment.

A number of related subjects are analyzed in this chapter. First, the increased institutionalization of capital markets under conditions of advanced capitalism. Evidence from the U.S. and U.K. in the post-war period indicates a dramatic and continuous absolute and relative increase in equity and bond holdings by institutional investors, including pension funds, and a corresponding decline by individuals. It is suggested that private pension funds as institutional investors now dominate capital markets and have an important impact on the direction of capitalist economies as a result of their control over investment. Second, there has been a corresponding institutionalization of investment. This is a natural concomitant of the control institutional investors now exercise over savings and investment previously analyzed in Chapter 6. Institutional investors, and private pension funds, in particular, are now a vital source of long-term investment capital for the private sector.

Third, the institutionalization of investment through pension funds has affected corporate finance and the locus of control over corporate securities. Pension saving and investment channelled to the private sector has become an important source of external corporate financing, particularly on the downside of the business cycle. The investment

channelled through the private pension system has become both a source of corporate financing and macro-economic investment. Increased pension fund holdings of corporate securities indirectly facilitates the interpenetration and interdependence of financial and industrial capital by vesting pension funds with a proprietorial interest in the management of private sector corporations.

The fourth, and last, topic dealt with in this chapter is the state as an institutional investor. The expansion of the capitalist welfare state's economic activities, including the augmentation of the retirement income system, in the post-war period has resulted in important changes in financial intermediation and the structure of capital markets. The state to finance its own activities and expenditures has become an increasingly important actor in financial markets. The state pension system, particularly in Canada, has become a vital source of public sector finance. The welfare state and private sector therefore are competitors in capital markets. As a result of this situation, the structurally determined interests of the elderly for income security and the welfare state's finance requirements are in opposition to the private sector's need for investment capital and the private pension industry's institutional survival. The institutionalization of capital markets and investment under conditions of advanced capitalism is examined with particular reference to pension funds.

7.2 The Institutionalization of Capital Markets: The Anatomy of Control

In a capitalist economy control over and direction of investment is the primary source of economic power. The locus of investment decision-making and corporate ownership in advanced capitalist economies now resides in two centers of power: first, a small socio-economic elite of individuals and families; and second, a relatively few, but powerful,

institutional investors such as banks, insurance companies, pension funds and other financial intermediaries.

The rise of the institutional investor in the post-war period represents a new phase in the transition from personal to impersonal capitalist ownership.⁶ Berle and Means in the 1930s identified three stages in the control of large corporations: first, majority control by the founders of the corporation; second, minority control by an individual or group; and third, internal or "management" control, with the stock widely dispersed.⁷ The significant role now played by institutional investors, and in particular pension funds, in supplying the investment requirements of the corporate sector (and government), and the increasing concentration of corporate shareholdings held by institutions, suggest a new and fourth stage in the control of the modern corporation.

Corporate ownership over the past two decades has increasingly shifted from the personal to the institutional sector of the economy as a result of institutional investment in the corporate sector through the securities market. Holdings of corporate equity - that is, stock or share issues - are of particular importance since they confer ownership and voting rights. Institutional investors, such as pension funds which accumulate and invest pension savings, have therefore become the indirect (registered) owners of corporations, while acting on behalf of the beneficial owners whom they represent, such as occupational pension plan members. Recent trends have witnessed the increasing domination of capital markets by institutional investors and the institutionalization of investment. This has significant implications for corporate finance and the ownership of corporate securities.

The locus of corporate control and ownership can be determined from the distribution of corporate securities (stocks and bonds) and government bonds between and among the various sectors of the economy.

The work of Moyle, Prais, Errit, Briston and Dobbins, and Minns in the U.K.,⁸ and the Securities and Exchange Commission, Goldsmith, Tilove and Harbrecht in the U.S.,⁹ have recorded the increasing proportion of share ownership held by institutional investors and pension funds and the corresponding decline of personal sector holdings. In the case of Canada, where these data have not previously been existent, a long-term time-series has been constructed from the national flow accounts in order to ascertain the distribution of stock and bond ownership between individual and institutional investors. This is presented in Table 7.1. A transnational comparison of institutional and individual stock ownership in the U.K., U.S. and Canada is reported in Table 7.2.

A bi-modal typology emerges from the information presented in Table 7.2, where Britain and the U.S. may be viewed as the ideal type and Canada the anomalous case. In Britain and the U.S. there has been a marked long-run decline in corporate shares held by the personal sector and a corresponding increase in institutional sector holdings since the early 1960s. Individuals have been net sellers of corporate equity, while institutions have been the major net buyers. In Britain institutional shareholdings in the past twenty years have increased from 30 to 58 per cent of all outstanding equity, while in the U.S. the proportion of corporate shares owned by institutions has increased from 24 to 35 per cent. Institutional investors, broadly defined, therefore own 58 per cent of all outstanding corporate equity in the U.K. and 35 per cent in the U.S.

The case of Canada is unique for at least two reasons when compared with Britain and the U.S. In the first instance, unlike the U.K. and U.S., shareholdings by the personal sector have only marginally declined, from 46 to 44 per cent between 1962 and 1979. Second, in Canada an inordinately large proportion of corporate shares, nearly 20 per cent, are held through the foreign sector. This is a result of Canada's dependent

TABLE 7.1

DISTRIBUTION OF INDIVIDUAL AND INSTITUTIONAL
STOCK AND BOND OWNERSHIP BY SECTOR,
BOOK VALUE, CANADA, SELECTED YEARS, 1962-1979

| <u>Financial Asset By Sector</u> | <u>1962</u> | <u>1965</u> | <u>1970</u> | <u>1975</u> | <u>1979</u> |
|--------------------------------------|-------------|-------------|-------------|-------------|-------------|
| STOCK OWNERSHIP | | | | | |
| Personal Sector ¹ | 45.7% | 46.1% | 42.9% | 41.4% | 44.4% |
| Institutional Investors ² | 7.9 | 10.5 | 13.9 | 17.5 | 21.8 |
| Other Private Financial | | | | | |
| Institutions | 5.2 | 6.7 | 7.3 | 8.9 | 7.5 |
| Trusted Pension Funds | 1.5 | 2.2 | 3.8 | 4.6 | 4.0 |
| Life Insurance Cos. | 0.7 | 0.9 | 1.6 | 2.1 | 1.2 |
| Chartered Banks and | | | | | |
| Near Banks ³ | 0.5 | 0.7 | 0.0 | 1.0 | 8.5 |
| Public Financial Institutions | 0.0 | 0.0 | 0.3 | 0.0 | 0.6 |
| Monetary Authorities | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Social Security Funds ⁴ | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Non-Financial Private Corps. | 10.5 | 10.9 | 10.4 | 11.0 | 11.4 |
| Public Sector | 0.2 | 0.2 | 0.5 | 0.6 | 0.4 |
| Federal Gov't | 0.02 | 0.02 | 0.1 | 0.2 | 0.03 |
| Provincial and Local Gov't | 0.03 | 0.03 | 0.3 | 0.3 | 0.1 |
| Non Financial Gov't Corps. | 0.1 | 0.1 | 0.1 | 0.1 | 0.3 |
| Foreign Sector ⁵ | 35.8 | 32.3 | 32.3 | 29.4 | 21.2 |
| BOND OWNERSHIP | | | | | |
| Personal Sector ¹ | 33.6% | 31.9% | 28.0% | 26.6% | 20.8% |
| Institutional Investors | 42.3 | 41.1 | 44.6 | 46.1 | 46.5 |
| Other Private Financial | | | | | |
| Institutions | 3.7 | 3.4 | 3.5 | 3.4 | 3.9 |
| Trusted Pension Funds | 8.6 | 9.2 | 8.6 | 9.5 | 11.4 |
| Life Insurance Cos. | 11.3 | 10.5 | 8.1 | 7.3 | 6.6 |
| Chartered Banks and | | | | | |
| Near Banks ³ | 12.1 | 11.7 | 11.9 | 9.8 | 7.7 |
| Public Financial Institutions | 0.4 | 0.4 | 2.0 | 2.9 | 3.2 |
| Monetary Authorities | 6.2 | 5.9 | 5.3 | 5.1 | 5.1 |
| Social Security Funds | 0.0 | 0.0 | 5.2 | 8.1 | 8.6 |
| Non-Financial Private Corps. | 3.1 | 3.1 | 1.1 | 0.4 | 0.3 |
| Public Sector | 7.4 | 8.1 | 9.5 | 8.7 | 8.9 |
| Federal Gov't | 0.8 | 0.5 | 0.8 | 0.1 | 0.1 |
| Provincial and Local Gov't | 5.9 | 6.7 | 7.7 | 7.9 | 8.3 |
| Non Financial Gov't Corps. | 0.7 | 0.9 | 1.0 | 0.7 | 0.5 |
| Foreign Sector | 13.6 | 15.7 | 16.9 | 18.3 | 22.7 |

- Notes:
1. Including unincorporated businesses and non-profit foundations. The limitations of these data do not allow differentiation between individuals and unincorporated businesses, Sector I and II of the financial flow accounts. The data for Sectors I and II, individuals and unincorporated businesses, is derived residually. In the case of stock assets (corporation common and preferred shares) the figure is estimated by subtracting the estimated aggregate of all share assets held by all other sectors, including the Foreign Sector, from the estimated aggregate value of all shares outstanding (on the liability side) by all sectors.
 2. The financial flow accounts do not break-out equity ownership by sector within the institutional investor category. The "control total" for the value of all shares outstanding is the sum across all sectors of category 3520, stocks liability side, which can then be compared to share assets (category 2520) held by persons and unincorporated businesses (categories I and II). It is not possible to derive a frequency distribution of stock ownership by sector within the institutional investor category because the asset category "corporate claims" (category 2512) includes both short and long-term loans and advances from affiliated companies plus investment in shares of affiliates and thus is a "dirty" figure. The liability category "corporate claims" (category 3512) includes short and long-term loans and advances from affiliated companies but does not include issues of shares to affiliates. The total across all sectors for category 2512 (corporate claims, asset side) therefore does not equal the total across all sectors for category 2520 (stocks, liability side) by the amount of shares in affiliates held as assets and "buried" in category 2512 (corporate claims, asset side). In order to estimate stock ownership by sector within the institutional investor category it is necessary to derive stock portion "control figures" for each type of institutional investor. The methodology used here to estimate the stock portion "control figures" for each sector within the institutional investor category is as follows: the ratio of category 3512, Total Corporate Claims, liability side to category 2512, Total Corporate Claims, asset side represents the non-stock proportion. The arithmetic inverse, expressed as a percentage, represents the stock portion "control figure". The stock portion control figures are: 60.1% (1962), 59.7% (1965), 60.1% (1970), 63.5% (1975) and 52.4% (1979). The stock portion "control figure" is related to all sub-categories of institutional investors in category 2512, corporate claims asset side. The stock portion "control figure" related to category 2512, corporate claims asset side, plus category 2520 stocks asset side, is thus the "pure" amount of stock held by each sector within the institutional investor category. Figures are rounded.
 3. Near banks, in general, refer to trust companies.
 4. In the national flow accounts the assets held in equities by the Quebec Pension Plan are owned and invested by the Caisse de Dépôt and are classified under Sector IX-2, Public Financial Institutions, rather than in Sector XII-2, Social Security Funds.
 5. Non-residents holding registered stocks and bonds. Approximately 40 per cent of foreign sector holdings are direct investment by corporations, while an estimated 60 per cent is held as portfolio investment by undisclosed non-residents.

Sources: Derived and calculated from a special request computer print-out, based on unpublished national flow accounts data provided by Statistics Canada to the author September 5, 1980. The author wishes to acknowledge his professional debt and gratitude to Mr Randall Geehan, formerly Chief, National Flows and Accounts Section, Statistics Canada for discussing various methodological considerations. Also Statistics Canada, Financial Flow Accounts, fourth quarter, 1979 (Ottawa and Hull: Minister of Supply and Services, 1980), tables 4-1 and 4-5, pp. 134-145.

TABLE 7.2

COMPARISON OF THE
DISTRIBUTION OF INDIVIDUAL AND INSTITUTIONAL
STOCK OWNERSHIP BY SECTOR, MARKET VALUE,
U.K., U.S., AND CANADA, SELECTED YEARS, 1961-1981

| Shareholdings by Sector | U.K. | | U.S. | | Canada | | Percentage Point Change | |
|----------------------------------|-------|-------|-------|-------|--------|-------|-------------------------|-------|
| | 1963 | 1981 | 1961 | 1974 | 1962 | 1979 | U.K. | U.S. |
| Personal Sector ² | 56.1% | 30.4% | 73.0% | 60.9% | 45.7% | 44.4% | -25.7 | -12.1 |
| Institutional Investors | | | | | | | | |
| Pension Funds | 30.4 | 57.9 | 23.8 | 35.1 | 7.9 | 21.8 | +27.5 | +11.3 |
| Life Insurance Cos. ³ | 6.4 | 26.7 | 4.5 | 12.6 | 1.5 | 4.0 | +20.3 | +8.1 |
| Banks and Near Banks | 10.0 | 20.5 | 2.9 | 5.5 | 0.7 | 1.2 | +10.5 | +2.6 |
| Other Private | 1.3 | 0.3 | 11.0 | 12.5 | 0.5 | 9.1 | +1.0 | +1.5 |
| Financial Institutions | 12.7 | 10.4 | 5.4 | 4.5 | 5.2 | 7.5 | -2.3 | -0.9 |
| Non-Financial Private Corps. | 5.1 | 5.1 | n.a. | n.a. | 10.5 | 11.4 | 0.0 | n.a. |
| Public Sector | 1.5 | 3.0 | n.a. | n.a. | 0.3 | 0.4 | +1.5 | n.a. |
| Foreign Sector | 7.0 | 3.6 | 3.1 | 4.1 | 35.8 | 21.2 | -3.4 | +1.0 |
| | | | | | | | | -14.6 |

- Notes: 1. The U.K. and U.S. are at market value. For Canada equity holdings are at book value. The difference between market and book value of the equity holdings would not affect the internal distribution between sectors.
2. Including unincorporated businesses and non-profit foundations.
3. Near banks refer to trust companies in Canada and trust companies and savings and loans companies in the U.S., including their personal and common trust funds.
4. Trustee (non-insured) pension plans.
5. Including property and liability insurance companies.
6. Private non-insured pension plans and state and local retirement funds.
7. Including monetary authorities and public financial institutions.
8. Including federal, provincial and local government, as well non-financial government enterprises and social security funds.

Sources: For Britain, M.J. Erritt and J.C.D. Alexander, "Ownership of Company Shares: A New Survey", CSO Economic Trends, No. 287 (September 1977), Table 2, p. 100; Royal Commission on the Distribution of Income and Wealth, Report No. 2, Income from Companies and Its Distribution, Cmd 6172 (London: HMSO, July 1975), Table 9, p. 17 and The Stock Exchange, Stock Exchange Survey of Share Ownership, 1983 (London: Stock Exchange, 1983), Table 2.16. For the U.S., Securities and Exchange Commission, Statistical Bulletin 33 (August 1974), pp. 805-806 and Statistical Bulletin 34 (May 1975), p. 439 and James Bohan, "A Sector Analysis of Supply and Demand for Equities - 1979", Market Analysis Report (New York: Merrill, Lynch, Pierce, Fenner and Smith Inc., November 8, 1979), p. 15. For Canada, Table 6.7, "Distribution of Individual and Institutional Stock and Bond Ownership by Sector, Book Value, Canada, Selected Years, 1962-1979", op. cit.

"branch-plant" economy where major firms are wholly or partially owned subsidiaries of American transnational corporations. This has resulted in a "thin" capital market, causing a distortion in the sectoral distribution of corporate share ownership. While institutional shareholdings in Canada are relatively less than in the U.K. and U.S., they nevertheless are substantial, having nearly tripled from 8 to 22 per cent of all outstanding equity between 1962 and 1979. During this period the institutional sector has been a net buyer of corporate shares, while the foreign sector, and to a lesser extent individuals, have been net sellers. By 1979 institutional holdings of corporate equity in Canada were of the same magnitude as those held through the foreign sector (Table 7.1). A further indication of the institutionalization of capital markets in Canada is the fact that 47 per cent of all corporate and government bonds are held by institutional investors, as opposed to only 21 per cent owned through the personal sector (Table 7.1).

Projections of corporate shareholdings by institutional investors, while of course tentative, nevertheless are of considerable interest with respect to assessing the importance of institutional investors in the future. Briston and Dobbins projected the future pattern of U.K. share ownership held by combined institutions as increasing from 70 to 85 per cent of outstanding equity by the year 2000.¹⁰ In the United States, Soldofsky and Drucker have estimated that total institutional shareholdings as a proportion of the market value of all outstanding stock will increase to 55 and 66 per cent respectively over the same period.¹¹ Drucker's projections, however, have been challenged by some on methodological grounds as being too extreme.¹² For Canada, extrapolating on the basis of past growth trends would suggest that combined institutional corporate shareholdings will increase from 22 to 42 per cent by the end of the century.

The last two decades have witnessed a basic transformation in the configuration of capital markets and the locus of corporate securities in the

U.K., U.S. and Canada as the institutional investor has become a force. The distribution of corporate shareholdings and investment decision-making between and within the personal and institutional sectors, and the growing importance of private pension funds, is now considered.

7.2.1 Personal Sector. Ownership of corporate equity within the personal sector is limited to and concentrated among a small elite of individuals and families. This issue is of considerable relevance and importance since it is this group of shareowners who own and control the dominant financial institutions which are responsible for the operation of the private pension system. "In terms of power over the economy," as Johnson has argued, "the extreme concentration of share ownership in the top 1 per cent of income earners allows almost total control...because a high degree of concentration...permits easy organization of those shares for [corporate] decision-making purposes."¹³ In the U.S. only 18.9 per cent of the adult population own corporate shares (1981), compared with 7.0 per cent in Canada (1983) and 3.9 per cent in Britain (1981).¹⁴ Ownership of equity is highly concentrated, as is receipt of dividend income, among the upper socio-economic group. In Britain the top 1 per cent of the population owned 54 per cent of all equity, while the top 10 per cent held 90 per cent of all outstanding corporate shares in 1976.¹⁵ Studies of stock ownership in the United States indicate that the top 1 and 10 per cent of families and unattached individuals in 1971 accounted for 51 and 75 per cent respectively of the value of all stockholdings.¹⁶ A similar pattern emerges in Canada where the top 1 per cent of income earners owned 42 per cent of all shares and the top 10 per cent accounted for 72 per cent of all stock ownership in 1968.¹⁷ Stock and bond ownership in Canada remained constant between 1954 and 1976 as reported in Table 7.3. But stock ownership, based on a recent Toronto Stock Exchange (TSE) survey, declined from 8.5 to 7.0 per cent of the adult population between 1976 and 1983.

TABLE 7.3
DISTRIBUTION OF STOCK AND BOND OWNERSHIP,
BY VALUE OF HOLDING,
CANADA, 1954 AND 1976

| Value of Holding | Percentage of Families and Individuals Owning | | | |
|---------------------|---|------|--------------------|------|
| | Stock | | Bonds ¹ | |
| | 1954 | 1976 | 1954 | 1976 |
| No Holdings | 91.1 | 91.5 | 72.8 | 74.5 |
| Total With Holdings | 8.8 | 8.6 | 27.2 | 25.5 |
| Less than \$1,000 | 4.1 | 3.1 | 16.3 | 9.1 |
| \$1,000 - \$4,999 | 2.6 | 2.8 | 7.4 | 9.3 |
| \$5,000 - \$9,999 | 0.9 | 1.0 | 1.8 | 2.9 |
| \$10,000+ | 1.2 | 1.7 | 1.7 | 4.2 |

Note: 1. Including corporate and government issues.

Sources: Retabulated and calculated from the Dominion Bureau of Statistics, Incomes, Liquid Assets and Indebtedness of Non-Farm Families in Canada, 1955 (Ottawa: Queen's Printer, 1958), Table 23, p. 41 and Table 26, p. 42 and Statistics Canada, Income, Assets and Indebtedness of Families in Canada 1977 (Ottawa: Minister of Supply Services, 1980), Table 10, p. 46 and special request for update by author September 28, 1981.

The diffusion of corporate share ownership reinforces the power of those individuals and families with large shareholdings. The New York Stock Exchange (NYSE) reported that approximately two-thirds of all shareholdings consisted of less than 100 shares and that the median holding is well below 100 shares.¹⁸ A similar situation can be inferred from Canadian data, reported in Table 7.3 for 1976, which indicates that 36 per cent of all shareholders (3 per cent of the population) owned less than \$1,000 in stock compared with 19 per cent of all shareholders (1.7 per cent of the population) who held \$10,000 or more in equity. A case in point is Bell Canada, the fourth largest corporation in the country, where 53 per cent of stockholders own 100 or less shares, while 10 per cent of investors hold 1,000 or more shares.¹⁹ Among that minority of the population owning corporate stock, there are many small shareholders and a few large ones. Ownership of corporate equity, however, increasingly resides within the institutional sector and among pension funds.

7.2.2 Institutional Sector. The ascendancy of financial intermediaries and institutional investors was discernable as early as 1900. This growth has accelerated and become more pronounced since the end of World War II.²⁰ In Britain, according to Prais, total institutional holdings of all government and corporate securities (bonds and equity) increased from 74 to 80 per cent between 1957 and 1972.²¹ Similarly in Canada, total holdings of all outstanding securities by institutional investors increased from 50 to 68 per cent between 1962 and 1979 (Table 7.1).

By way of comparison, while private institutional investors (broadly defined) in Canada accounted for nearly 22 per cent of all equity ownership in 1979, government (including public financial institutions, public enterprises and social security funds) held less than 1 per cent of all shares. Private financial intermediaries held roughly 47 per cent of all bond issues, whereas government held only 26 per cent (Table 7.1). Given present arrangements the private institutional investor clearly dominates capital markets.

Private pension funds are now the major financial intermediary within the institutional sector, having in general experienced the greatest growth in assets of any major financial institution in the post-war period. Pension funds in Canada, for example, now rank as the largest non-bank financial intermediary in terms of assets. In Britain and the United States, private pension funds now rank as the largest institutional holder of corporate equity, while in Canada they have usually ranked second behind "other private financial institutions" (Table 7.1). Trusteed pension funds in Canada hold the largest portfolio of government and corporate bonds (Table 7.1). Between 1961 and 1977 trusteed and insured pension plans in Canada accounted for 45 per cent of the total increase in corporate stocks held by financial institutions and for 30 per cent of the increase in bonds.²²

Private pension funds are the largest purchaser of corporate equity as is indicated in Table 7.4. The acquisition of equity by private

TABLE 7.4
COMPARISON OF GROWTH RATE
IN THE
ACQUISITION OF CORPORATE EQUITY
BY INDIVIDUALS, INSTITUTIONAL INVESTORS AND PENSION FUNDS,
U.K., U.S., AND CANADA, SELECTED YEARS, 1961-1981

| Category | Percentage Change | | |
|-----------------------------|-------------------|--------|--------|
| | U.K. | U.S. | Canada |
| Personal Sector | -45.8 | -16.6 | -2.9 |
| All Institutional Investors | +90.5 | +47.5 | +175.9 |
| Pension Funds | +317.2 | +180.0 | +166.7 |

Source: Calculated from Table 7.2, op. cit.

pension funds is 3 to 4 times greater than for all other institutional investors in Britain and the U.S., while approximating the average for combined institutions in Canada.

The institutionalization of capital markets is signified by such indicators as large block trading and common stock activity rates by institutions and pension funds. Large block trading activity, an indicator of institutional involvement in the equities market, has been increasing for nearly twenty years. In the United States, for example, large block trading as indicated in Table 7.5, has increased from 3.1 per cent of total New York Stock Exchange volume in 1965 to nearly 45 per cent at mid-year 1983. This means that nearly half of the total trading on the world's largest stock exchange is attributable to institutional investors such as pension funds. According to the Toronto Stock Exchange, the volume of public trading which originates solely from pension funds is conservatively estimated to be in the order of 12 to 15 per cent.²³ The increasing volume of large block trading activity originating with institutional investors is also reflected by the increasing average size of equity transactions. According to The Stock Exchange (London), the average size of transactions has increased from £ 1.1 million in 1966 to £ 4.0 million in 1976.²⁴ On the NYSE the average number of daily large block transactions has increased from 9 in 1965 to nearly 1,500 in 1983.²⁵

TABLE 7.5
LARGE BLOCK TRADING
ON THE
NEW YORK STOCK EXCHANGE,
1965 - 1983

| <u>Year</u> | <u>Large Block Trading¹ (In 000 shares)</u> | <u>Percentage of Total NYSE Volume</u> |
|-------------|--|--|
| 1965 | 48,262 | 3.1 |
| 1970 | 450,908 | 15.4 |
| 1975 | 778,540 | 16.6 |
| 1980 | 1,360,100 (E) | 29.0 |
| 1983, Q2 | 7,200,000 | 44.6 |

Note: 1. A large block is defined as one consisting of 10,000 or more shares.

Source: Richard J. Briston and Richard Dobbins, The Growth and Impact of Institutional Investors. A Report to the Research Committee of the Institute of Chartered Accountants in England and Wales (London, 1978), Exhibit 72, p. 207; 1980 and 1983 figures from Pensions & Investment Age, October 31, 1983, p. 23.

Common stock activity rates similarly indicate the dominance of institutional investors and pension funds in capital markets. Activity rates measure portfolio turnover, that is, equity purchases plus sales as a percentage of market value expressed as an annual rate. Contrary to the view that "private pension funds have not dominated the stock markets" because "they have traded their stocks relatively infrequently",²⁶ a low activity rate in fact reflects the dominance, stability and long-term investment objectives associated with private pension funds. This is because institutional holdings of common stocks have a stabilizing effect in that "they have long-term investment objectives and are not subject to panic selling in the face of market decline and [are] not harried by short-term fluctuations."²⁷ In general there would appear to be an inverse relationship between the investment time horizon and the portfolio activity ratio.

The experience in the United States, for example, indicates that in virtually every year the activity rate of private pension funds was below

that of other institutional investors and the market between 1966 and 1974. Over this time period the activity ratio of private pension funds was on average 31 per cent below the market average.²⁸ In the U.K., on the other hand, between 1967 and 1975 pension fund portfolio turnover was generally equal to or marginally greater than the market average, but normally below that of other institutions.²⁹ This situation can be explained by two considerations. First, the abnormally high activity rate among Local Authority pension funds which are notorious for "churning", that is, unnecessary portfolio trading to stimulate brokerage commissions³⁰ which upwardly biases the average pension activity ratio. Second, beginning in 1975, financial intermediaries including pension funds began a major restructuring of their portfolio's, reflecting the deteriorating economic climate, and shifted from long to short-term investment objectives.³¹

These data generally support the view that under advanced capitalism there has been an institutionalization of capital markets, with a corresponding concentration and centralization of corporate shareholdings between and among a small group of individual shareholders and large institutional investors such as private pension funds. As a result of the dramatic growth of pension fund assets in the post-war period, the investment behaviour of pension funds in securities markets is of considerable importance to capitalist economies.

7.3 The Institutionalization of Investment: Pension Funds and Capital Markets

The institutionalization of investment under advanced capitalism is a concomitant of the domination of capital markets by institutional investors. Pension saving, as previously demonstrated, now represents a major source of investment for the economy (Chapter 6). Pension savings are accumulated by and channelled through the occupational and state

pension systems into investment through securities markets. The impact of pension funds on capital markets therefore has serious and far-ranging implications for the pattern of investment, corporate and public finance, and the nexus of ownership and control within the corporate sector. Increasingly, the corporate sector has been appropriating the occupational pension system as a source of investment capital to satisfy its finance requirements. Similarly, government has increasingly used the state pension system as a source of social capital and general revenue. These considerations are explored below.

7.3.1 Pension Saving and the Pattern of Investment. Personal saving channelled through the retirement income system is cycled through capital markets in the form of investment in corporate and government securities as well as other classes of assets. Table 7.6 outlines the various components of the retirement income system and the distribution of pension savings into various types of investment instruments.

The private pension system in Canada represented 81 per cent of total accumulated pension savings, compared to 19 per cent flowing through the public (state) pension system. Of the \$137 billion in total accumulated pension savings (assets) in 1981, 62 per cent (\$85 billion) was invested through capital markets and the remaining 38 per cent (\$52 billion) was channelled into non-marketable government securities. The private pension system includes both private and public sector plans. Private sector occupational pension funds are invested in marketable assets, that is, assets that can be bought and sold in the securities market: stocks, bonds, mortgages, real estate and short-term money instruments. While some public sector occupational pension funds are similarly invested, there are many public employee funds which are wholly or partially invested in non-marketable government securities, that is, assets which were not purchased in financial markets and were issued to essentially captive public

TABLE 7.6

PENSION SAVINGS MATRIX,
SOURCES AND DISTRIBUTION
OF
ACCUMULATED RETIREMENT INCOME SAVINGS, \$ BILLION,
CANADA, YEAR-END 1981

| Source of Savings | Total Accumulated Savings | Corporate | | Government Bonds | | Mortgages and Real Estate | | Other 3 |
|---------------------------------------|---------------------------------|-----------|-------|------------------|----------------|---------------------------------|---------|---------|
| | | Stocks | Bonds | Marketable | Non-Marketable | Real Estate | Other 3 | |
| | | | | | | | | |
| 1. Public Pension System ¹ | | | | | | | | |
| 1.1 CPP | 20 | 14.6 | - | - | 20 | 100.0 | - | - |
| 1.2 QPP | 6 | 4.4 | 1 | 16.7 | 5 | 83.3 | - | - |
| Sub-total | 26 | 19.0 | 1 | 16.7 | 5 | 19.2 | 20 | 76.9 |
| 2. Private Pension System | | | | | | | | |
| 2.1 Occupational Pensions | 86 | 62.8 | 16 | 18.6 | 15 | 17.4 | 32 | 37.2 |
| 2.1.1 Private Sector ² | 30 | 21.9 | 11 | 36.7 | 6 | 20.0 | - | - |
| 2.1.2 Public Sector ² | 56 | 40.9 | 5 | 8.9 | 9 | 16.1 | 32 | 57.1 |
| 2.2 RRSPs | 25 | 18.3 | 1 | 4.0 | 1 | 4.0 | - | - |
| Sub-total | 111 | 81.0 | 17 | 15.3 | 16 | 14.4 | 32 | 28.8 |
| Grand Total | 137 | 100.0 | 18 | 13.1 | 21 | 15.3 | 52 | 37.9 |
| | | | | | | | 10 | 7.3 |
| | | | | | | | 31 | 22.6 |

Notes: 1. Excluding the general revenue financed Old Age Security (OAS) pension and the income-tested Guaranteed Income Supplement (GIS).
2. Including trustee and consolidated revenue (pay-as-you-go) public employee pension plans.
3. Including cash, deposits and money market instruments.

Source: Retabulated and calculated from the Business Committee on Pension Policy, Capital Markets Study. Prepared by Pension Finance Associates Ltd (Toronto: BCPP, September 1983), Table 2.3, p. 13.

employee pension funds. For the state plans, the assets of the Canada Pension Plan (CPP) are wholly invested in non-marketable provincial and federal securities, at or marginally below market interest rates. In contrast, the assets of the Quebec Pension Plan (QPP) are all invested in marketable securities.

The pattern of investment identified in Table 7.6 has resulted in 60 per cent of the accumulated pension savings of the retirement income system being generated by the public sector (state and public employee plans), while 53 per cent of the assets (marketable and non-marketable government bonds) were used to finance this sector. Conversely, this means that 40 per cent of total pension savings were generated through the private sector, while 47 per cent of the retirement income system's assets were used to finance the private sector.

7.3.2 Long vs. Short-Term Investment. The retirement income system - state and occupational pension plans - in advanced capitalist economies is an important source of funds to meet the long-term investment requirements of the economy and of the corporate and public sectors. Pension funds generally adopt a long-term investment horizon in structuring their portfolio asset mix. This is because pension plan commitments (liabilities) tend to be very long-term, with the average employee being perhaps 20 to 30 years away from retirement; liquidity requirements are virtually non-existent, because new contribution inflow is typically many times greater than benefits paid out. Pension funds as financial intermediaries and institutional investors, therefore, are the perfect vehicle to accumulate and invest savings over the long-term.

In the United States 63 per cent of all funds raised in the economy between 1960 and 1980 were for long-term investment in physical plant and equipment as well as for mergers and acquisitions. In this same time period, occupational pension funds provided over 11 per cent of the net funds

supplied in the economy. This means that private pension funds supplied nearly 18 per cent of all long-term investment capital. By 1981 pension funds were the second largest non-banking source of funds in the American economy.³² Similarly in Canada, between 1970 and 1981, 64 per cent of all non-financial corporation investment was long-term, a significant proportion of which was supplied through the private pension system.³³

The situation in the U.K. stands in contrast to that in the United States and Canada. The investment policies of pension funds have affected not only the level, but also the type of capital investment in the U.K. Pension funds have reinforced the failure of banks and other financial institutions to provide long-term finance.³⁴ According to one study,

the financial intermediaries that are responsible for channelling available funds into companies have not been prepared to invest long term in British industry. This has meant that British industry has needed to invest for short-term profits. It has also meant that the cost of capital in the U.K. is higher than...in other countries.³⁵

British industry has increasingly been forced to rely on short-term financing. According to the Grylls Report, short-term bank loans accounted for almost half of total corporate financing in the U.K., compared with less than a fifth in Germany and Japan between 1970 and 1978.³⁶

Pension funds have followed this general pattern and have increasingly invested short-term. The Wilson Committee found that pension funds held shares for 24 years on average between 1963 and 1967 and for only 6 years in the period between 1973 and 1977.³⁷ A recent report of the National Association of Pension Funds indicated that pension fund managers now consider a "long-term" investment to be of two to five years duration.³⁸ This short-term investment pattern and increased portfolio activity by pension funds, coupled with other economic factors, has further depressed the level of capital investment in Britain. The evidence suggests, particularly in the U.S. and Canada, that pension funds are a major source of

long-term investment for these capitalist economies. This pattern of investment is reflected in the asset mix, or portfolio composition of occupational pension funds.

7.3.3 Pension Fund Investment and Portfolio Composition.

Pension funds are invested so as to maximize the rate of return on investment, subject to an acceptable level of risk. Because employer-based occupational pension plans are deemed in law to be trusts, they are required to act in a "prudent" manner so as to fulfill their fiduciary responsibility to plan members. Pension contributions plus investment income are used to pay retirement benefits in the case of a defined benefit plan, with the plan sponsor accepting the responsibility for an investment shortfall or, in the case of a money purchase plan, an annuity is purchased at retirement.

The increasing flow of pension saving cycled through the private pension system into capital markets takes the form of investment in various types of assets held by pension funds. The portfolio composition, or asset mix ratio, of a pension fund depends upon a number of considerations. Those factors include the level of acceptable risk to maximize the rate of return on investment, portfolio diversification to spread risk-taking, the general economic climate, the business and equity cycles, the real rate of return on and spread between different asset classes, the external financing requirements of the corporate sector, government policy affecting the supply of equities and bonds, general investment strategy, market timing for the acquisition and sale of securities, institutional fundamentals as they affect specific securities, statutory regulations concerning "quality" and "quantity" tests in respect of portfolio composition and the liquidity requirements of the pension fund to pay benefits.³⁹ How is pension saving channelled through the private pension system invested?

Table 7.7 reports the portfolio composition of trustee pension plans in Canada, by sector, between 1966 and 1980. A transnational

TABLE 7.7

PERCENTAGE DISTRIBUTION
OF

TRUSTED PENSION PLAN ASSETS, CANADA,
BOOK VALUE, BY SECTOR, 1965 - 1980

| Year | Bonds ¹ | | | Stock ² | | | Mortgages | | | Other ³ | | |
|------|--------------------|--------|-------|--------------------|--------|-------|-----------|--------|-------|--------------------|--------|-------|
| | Private | Public | Total | Private | Public | Total | Private | Public | Total | Private | Public | Total |
| 1965 | 54.9 | 83.4 | 63.9 | 21.0 | 1.3 | 15.1 | 9.2 | 9.2 | 9.5 | 14.9 | 6.1 | 11.5 |
| 1970 | 39.4 | 68.2 | 52.5 | 33.9 | 12.0 | 24.3 | 8.2 | 10.6 | 9.2 | 18.5 | 9.2 | 14.3 |
| 1971 | 38.7 | 66.7 | 51.2 | 35.9 | 13.3 | 25.8 | 8.4 | 10.5 | 9.4 | 17.0 | 9.5 | 13.6 |
| 1972 | 36.1 | 66.1 | 49.7 | 38.3 | 15.2 | 27.8 | 8.5 | 10.1 | 9.2 | 17.1 | 8.7 | 13.3 |
| 1973 | 33.1 | 64.6 | 47.6 | 37.5 | 15.5 | 27.4 | 9.4 | 9.9 | 9.6 | 20.1 | 10.0 | 15.4 |
| 1974 | 31.7 | 63.6 | 46.7 | 35.6 | 15.4 | 26.1 | 10.5 | 10.7 | 10.6 | 22.2 | 10.3 | 16.6 |
| 1975 | 33.0 | 64.3 | 47.8 | 34.4 | 14.6 | 25.0 | 12.5 | 10.7 | 11.6 | 20.1 | 10.4 | 15.6 |
| 1976 | 31.8 | 63.2 | 46.9 | 33.7 | 14.9 | 24.6 | 14.7 | 11.8 | 13.3 | 19.8 | 10.1 | 15.2 |
| 1977 | 32.7 | 63.9 | 48.0 | 29.3 | 13.7 | 21.5 | 15.4 | 11.5 | 13.5 | 22.6 | 10.9 | 17.0 |
| 1978 | 32.4 | 64.6 | 48.4 | 25.9 | 12.0 | 18.9 | 15.6 | 11.5 | 13.5 | 26.1 | 12.1 | 19.1 |
| 1979 | 34.4 | 63.4 | 49.0 | 24.5 | 12.6 | 18.5 | 13.9 | 11.0 | 12.5 | 27.2 | 13.0 | 20.0 |
| 1980 | 35.4 | 62.6 | 49.1 | 25.6 | 15.3 | 20.4 | 12.2 | 10.1 | 11.2 | 26.8 | 12.0 | 19.3 |

Note: 1. Government and corporate bonds.
2. Common and preferred shares.
3. Including real estate, cash, deposits and money instruments.

Source: Calculated from Statistics Canada, *Trusted Pension Plans Financial Statistics 1980* (Ottawa: Minister of Supply and Services Canada, 1982), Text table VI, p. 19.

comparison of occupational pension plan asset mix is outlined in Table 7.8. A number of trends can be briefly identified.

TABLE 7.8
COMPARISON OF PERCENTAGE DISTRIBUTION
OF
ALL TRUSTEED AND NON-INSURED PENSION PLAN ASSETS,
CANADA, U.S., AND BRITAIN, 1980-1981

| Country | Bonds ¹ | Stock ² | Real Estate and Mortgages | Other ³ |
|---------|--------------------|--------------------|---------------------------------|--------------------|
| Canada | 49.1 | 20.4 | 12.3 | 18.2 |
| U.S. | 31.0 | 61.3 | n.a. ⁴ | 7.7 |
| Britain | 23.7 | 51.7 | 8.6 | 16.0 |

Notes: 1. Corporate and government bonds.
2. Common and preferred shares.
3. Miscellaneous including mutual funds, foreign securities, cash and short-term paper.
4. Included in the category of Other.

Sources: Calculated from Christopher Johnson, "Pensions - A Growth Industry", Lloyds Bank Economic Bulletin, No. 19 (July 1980), Chart B, p. 3. Statistics Canada, Trusteed Pension Plans Financial Statistics 1980 (Ottawa: Minister of Supply and Services Canada, 1982), Text Table VI, p. 19 and the Statistical Abstract of the United States, 1982-83 (Washington, D.C.: GPO, 1982), Series 537, p. 330.

First, depending upon the business and equity cycles, there has been a long-term trend for pension funds, particularly those in the private sector, to invest in corporate stock. In the United States, for example, from 1960 to the peak of the market in the early 1970s, equity holdings of all pension funds (non-insured and insured) increased from 25 to 60 per cent of portfolio composition. Similarly in Canada, equity holdings of all trusteed pension plans (public and private) increased from 7 to 26 per cent of assets between 1960 and 1974. With the collapse of the equity market in North America in the early 1970s, compounded by stagflation over the next decade, pension funds divested themselves of common stock and accordingly restructured their portfolios in response to the economic climate.

Second, private sector pension plans have in the past held more common stock than have public sector pension plans, that is, they have a lower debt to equity ratio. For example, at the height of the market cycle in the early 1970s, U.S. non-insured pension funds held nearly 75 per cent of

their assets in equity, compared with public sector funds which held only 5 per cent of their funds in common stock. In Canada, over the long-term, private sector pension plans have held 2 to 3 times as much equity as have public sector plans (Table 7.7). At the peak of the equity cycle, major private sector pension plans in Canada held 60 per cent of their assets in equity, compared with 15 per cent by public sector plans.⁴⁰ Public sector pension plans in recent years have fundamentally altered their investment strategy, however, and are now investing heavily in equity in an attempt to maximize investment performance. Third, as a response to an inflationary environment, pension funds in the mid-1970s began to invest in more speculative asset classes such as real estate, mortgages and money market instruments (and works of art in the U.K.) in an attempt to secure a positive rate of return on investment.

A fourth, and increasingly important consideration, particularly in Britain, is the proportion of pension fund investment in foreign securities resulting in the exportation of investment capital. In Britain in the period prior to the abolition of exchange controls in 1979, pension funds invested 8 per cent of their new cash flow overseas; after the abolition of exchange controls this increased to 24 per cent of cash flow in 1981.⁴¹ The proportion of U.K. pension fund assets invested overseas increased from 5 to 13 per cent between 1978 and 1981. This flight of capital effectively undermines the long-term financing of domestic U.K. industry. Similarly in the United States, there has been an internationalization of pension fund investment to maximize performance at a time when domestic industry needs revitalization.⁴² In Canada, 4 per cent of pension assets are currently invested in foreign securities. Federal government guidelines formerly set a 10 per cent limit on the amount which could be invested overseas. As a result of pressure from the private pension industry this restriction was eliminated by the new Conservative government's 1985 Budget.

The increasing level of personal saving channelled through the pension system has resulted in the institutionalization of investment, with a corresponding impact on the structure and functioning of capital markets. This flow of savings is transformed into the stock of assets, such as equity and bonds, held by the pension system as a result of investment through securities markets. Pension funds therefore are an important link in capital markets between the supply of funds and the demand for investment by the corporate sector and social capital by the public sector. The asset holdings of the private pension system are a source of funds, that is, cash flow for corporate and public sector finance requirements. The full impact of pension funds on capital markets must therefore be analyzed and assessed in terms of their relationship to corporate and public sector finance.

7.4 Pension Funds and the Corporate Sector

The impact of the private pension system on capital markets as it relates to the corporate sector has two important dimensions: corporate finance and the ownership of corporate securities. One major study suggested that "the ownership of industrial shares is undergoing a substantial transformation, and one must expect...consequences for financing, management and concentration."⁴³ The private pension system's investment function has facilitated this transformation.

7.4.1 Sources of Corporate Funds. The modern corporation under advanced capitalism satisfies its investment, or finance, requirements through two mechanisms: first, through internal funding or financing, that is, undistributed corporate profits (retained earnings) plus capital consumption (depreciation) allowances; and, second, through external financing, that is, the sale of corporate securities through capital markets in the form of debt and equity issues.

Sources of external funds may be divided into two broad categories: equity and debt. Debt financing is classified into short-and

long-term debt instruments such as short-term paper and (bank) loans in the case of the former, and bonds and debentures in the latter. Bonds represent a long-term debt obligation by which the corporate borrower promises to pay a set rate of interest until the bond matures, at which time the principal must be repaid. Corporate bonds, as a debt instrument, do not confer ownership or voting rights on the holder, but are a preferred liability or lien against property, plant or equipment of the borrower.

The second form of external funding is equity financing. Equity may be raised in two ways: sale of stock (common and preferred shares) and retention of earnings. In order to raise capital new equity shares, or "rights" issues, are offered for sale by corporations in what is termed the "primary" market. Already outstanding, or "ordinary", shares are recycled, that is, bought and sold in the "secondary" market, but do not augment the cash flow or capital requirements of the enterprise since these shares were previously issued. Common stock or equity shares represent the residual ownership (assets minus liabilities) of an incorporated enterprise and confer ownership and voting rights upon the shareholder in addition to a proportion of distributed profits in the form of dividends. Equity financing, or share capital, is by definition long-term financing. With corporations reluctant or constrained from undertaking unlimited borrowing through debt instruments such as bonds, equity financing often becomes necessary to satisfy corporate finance requirements. The level of internal financing by corporations is an alternative to distributing profits and subsequently raising funds by means of equity issues.

The significance and implications of internal financing for corporate behaviour under advanced capitalism has been the subject of considerable controversy, particularly among Marxist scholars,⁴⁴ as it affects the "independence" or "autonomy" of the corporate sector in relation to the finance sector and the relative strength and dominance of industrial

or financial capital. In the post-World War II period the corporation, and the nature of corporate financing in particular, has undergone a fundamental qualitative transformation, some have argued, based on the high level of internal corporate funding (retained earnings and depreciation allowances). The extraordinary level of internal financing experienced by corporations has purportedly severed or reduced their dependence upon the finance sector as a source of external funding, or the necessity of firms raising capital through the securities market. In short, according to this theory, corporations are relatively "independent" because a significant portion of their capital and growth comes through self-financing. This in turn signals a new phase in capitalist development. Or does it?

In the flush of post-World War II economic expansion and prosperity, in the twenty year period from roughly 1950 to 1970, corporations in many advanced capitalist economies experienced an exceptionally high level of internal or self-financing.⁴⁵ In the United States, according to Menshikov, internally generated financing averaged 62 per cent between 1956 and 1960 and 51 per cent in the 1961 to 1965 period. Between 1964 and 1968 internal funding by corporations, as determined by Fitch and Oppenheimer, declined from 70 to 57 per cent. For Britain, the rate of internal funding has averaged about 70 per cent. While the rate fell from 77 per cent in 1950 to 69 per cent in 1965, it subsequently rebounded in the 1970s. Thompson's comparative study indicates that in economies with a high level of internal funding, a higher proportion of external funds come from equity and bonds than from bank loans. Prior to 1970 this was the case for both Britain and the U.S.; since that time, however, the situation in the U.K. has dramatically changed. In countries such as Japan and France, where the rate of internal funding is only 40 to 50 per cent, there is a greater reliance on bank loans for external funds.

In the period between 1950 and 1970, the level of internal corporate funding has varied over time and between countries. This in itself mitigates against constructing a "universal" theory of corporate finance under conditions of monopoly capitalism. The evidence based on this short historical time period suggests that the availability of internally generated funds was clearly related to the profitability of corporations and the scale of investment on the upside of the post-war business cycle. On the downside of the business cycle, however, when corporations experience cash flow problems, as has been the case since the early 1970s in Canada, Britain and the U.S., corporations are forced to borrow from capital markets, with a corresponding increase in the level of external financing.

As postulated here, the level of internal funding, and the corresponding reliance on external financing, is in general related to and a function of the business cycle, corporate liquidity and interest rates. This becomes strikingly apparent in the period after 1970, when on the downside of the business cycle corporations in the United States and Canada experienced an increased reliance upon external sources of funds. Britain, however, is an atypical case.

Relating the level of internal and external corporate financing to the business cycle, as shall be demonstrated, indicates that corporations have neither escaped nor are "independent" of the inherent cyclical nature of capitalism, but rather are bounded by it. On the downside of the business cycle, therefore, it may be expected that corporations will increasingly rely on external sources of financing, depending on interest rates and the strength of the securities market. Within this context, the growth of the private pension system's cash flow and asset base, as a result of increased pension saving, has served the dual function of generating significant investment at the macro-economic level and has supplied a moderate source of external financing for corporations on the downside of the business cycle.

Table 7.9 outlines on a transnational basis the sources of corporate funds and the change in financial position over the past twenty years. In the United States internal funding has declined from 73 per cent in 1960 to 59 per cent in 1980. Total external financing by corporations has correspondingly increased from 27 to 41 per cent over this period. The increased reliance on external sources of financing by corporations is similarly evidenced in Canada. Between 1963 and 1982 internal funding declined from 56 to 44 per cent, while external financing increased from 44 to 56 per cent.

The capital structure and cash flow position of corporations in North America on the downside of the business cycle since the 1970s is nearly the opposite of that experienced during the expansionary period between 1950 and 1970. Three general trends are noteworthy: first, the generally low proportion of new financing that comes from the sale of equities (3 to 12 per cent), compounded by the economic climate and the collapse of the equity market in the early 1970s; second, the concomitant reliance on long-term debt (10 to 16 per cent) with an associated increase in the debt to equity ratio; and third, the growth and use of short-term debt, particularly bank loans, to offset the rise in interest rates in the bond market. These data seriously challenge the contention that the modern capitalist corporation, particularly in the U.S. and Canada, is "independent" of reliance upon external sources of funds.

Britain is in the anomalous position of having experienced an accelerated rate of internal funding between 1970 and 1976, which was well above that recorded during the 1950 to 1970 period. Two trends are of particular note. First, the principal source of funds for corporations was undistributed income. However, undistributed income was increasingly used to finance the maintenance of existing assets through depreciation provisions rather than retained earnings. In turn, real investment was

TABLE 7.9

COMPARISON OF THE SOURCES OF CORPORATE FUNDS,¹
PERCENTAGE DISTRIBUTION,
CANADA, U.S., AND BRITAIN, SELECTED YEARS

| Sources of Funds | Canada ² | | | U.S. ³ | | | Britain ³ | | |
|-------------------------------|---------------------|---------|-----------------------|-------------------|-------|-----------------------|----------------------|-------|-----------------------|
| | 1963-67 | 1978-82 | Average, 1963-1982 | 1960 | 1980 | Average, 1960-1981 | 1970 | 1976 | Average, 1970-1976 |
| 1. Internal | 56.3 | 44.4 | 53.4 | 72.7 | 58.6 | 58.9 | 66.0 | 82.4 | 77.1 |
| 2. External | | | | | | | | | |
| 2.1 Other | | | | | | | | | |
| Liabilities | 10.5 | 15.1 | 12.4 | 2.5 | 9.9 | 11.1 | 5.7 | 2.8 | 4.3 |
| Debt | | | | | | | | | |
| 2.2.1 Short-Term ⁴ | 7.4 | 17.6 | 11.9 | 9.5 | 11.8 | 11.2 | 26.3 | 7.7 | 13.2 |
| 2.2.2 Long-Term ⁵ | 13.8 | 7.3 | 10.8 | 12.5 | 15.9 | 16.5 | 0.0 | 0.0 | 1.3 |
| 2.2.3 Total Debt | 21.2 | 24.9 | 22.6 | 22.0 | 27.7 | 27.7 | 26.3 | 7.7 | 14.5 |
| 2.3 Equity Issues | 11.9 | 15.6 | 11.6 | 2.9 | 3.8 | 2.4 | 1.9 | 7.0 | 4.1 |
| 2.4 Total External | 43.7 | 55.6 | 46.6 | 27.3 | 41.4 | 41.2 | 33.9 | 17.6 | 22.9 |
| 3. Total Sources ⁶ | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.1 | 100.0 | 100.0 | 100.0 |

- Notes: 1. Based on national flow accounts.
2. Non-financial corporations, excluding unincorporated businesses.
3. Industrial and commercial companies.
4. Bank loans, commercial paper, acceptances, finance company and government loans.
5. Bonds and mortgages.
6. Figures may not total due to rounding.

Sources: Calculated from Appendix G 1-3.

reduced, as is evidenced by the virtual lack of long-term borrowing to finance new investment over this period. The inability of corporations to raise equity and debt capital because of high interest rates generated severe liquidity problems. Second, in response to this situation, corporations borrowed short-term. Between 1970 and 1976, 93 and 45 per cent of total debt and external financing respectively was short-term. The high level of internal funding experienced over this period is explained in terms of corporations increasingly financing their operations out of internal reserves as a result of their inability to raise long-term capital in securities markets.

In the case of the U.S. and Canada, there has been an increased reliance upon external financing by corporations during the downturn in the business cycle since the early 1970s. It is in the raising of external debt and equity financing for the corporate sector that the securities market performs one of its principal functions. And it is the private pension system which is a major source of funds to the capital market. The demand for external funds by corporations must, therefore, be related to the supply of funds generated from the private pension system which are used to purchase corporate stocks and bonds in securities markets.

7.4.2. External Funds: Debt and Equity Financing. Pension fund purchases of corporate debt instruments and equity offerings are a source of external cash flow, or financing, for firms. In order to determine and assess the significance of the private pension system as a source of financing for the corporate sector a flow of funds matrix has been constructed for Canada relating the supply of and demand for corporate equity and bond issues.

Long-term debt instruments or financing on average accounted for 23 per cent of total external financing and 11 per cent of total sources of funds for Canadian non-financial corporations in the period between 1963 and 1982 (Table 7.9). During the past twenty-five years the private pension system has on average held 15 per cent of total assets in corporate bonds.

Over this same time period, 25 to 50 per cent of pension fund assets were invested in government bonds. In order to determine the impact of the private pension system upon external corporate debt financing, therefore, requires that pension fund acquisitions of corporate bonds be related to the supply of net new corporate bond offerings in securities markets.

Table 7.10 reports the value of corporate bonds purchased by pension funds as a proportion of net new corporate issues placed in Canada between 1966 and 1982. Over this period the private pension system purchased nearly 30 per cent of all corporate bonds. Between 1966 and

TABLE 7.10
VALUE OF BONDS PURCHASED BY
PRIVATE PENSION FUNDS AS A PERCENTAGE OF NET
NEW CORPORATE BOND ISSUES PLACED IN CANADA, 1966-1982

| Year | Value of Corporate Bonds Purchased by Pension Funds (Flow in \$ Million) | Value of Net New Corporate Bond Issues Placed in Canada (\$ Million) | Value of Corporate Bonds Purchased by Pension Funds as a % of Net New Corporate Issues |
|---------------------|---|---|--|
| 1966 | 143 | 712 | 20.1 |
| 1967 | 212 | 1,016 | 20.9 |
| 1968 | 95 | 1,911 | 7.9 |
| 1969 | 133 | 1,097 | 12.1 |
| 1970 | 130 | 1,140 | 11.4 |
| 1971 | 323 | 1,836 | 17.6 |
| 1972 | 254 | 1,516 | 16.8 |
| 1973 | 300 | 1,560 | 19.2 |
| 1974 | 381 | 1,558 | 24.5 |
| 1975 | 726 | 2,219 | 32.7 |
| 1976 | 348 | 1,237 | 28.1 |
| 1977 | 455 | 3,151 | 14.4 |
| 1978 | 519 | 3,169 | 16.4 |
| 1979 | 338 | 1,234 | 27.4 |
| 1980 | 668 | 1,497 | 44.6 |
| 1981 | 632 | 1,893 | 33.4 |
| 1982(E) | 448 | 295 | 151.9 |
| 1966-1972 Average : | | | 15.3% |
| 1973-1982 Average : | | | 39.4% |
| 1966-1982 Average : | | | 29.4% |
| 1970-1982 Average : | | | 33.7% |

Sources: The flow of pension fund investment into bond purchases was calculated from Statistics Canada, Trusted Pension Plans Financial Statistics 1980 (Ottawa: Minister of Supply and Services, various years), Text Table V. Net new corporate bond issues placed in Canada from the Bank of Canada, Review, December 1971 and 1981, Table 21, and OECD Financial Statistics, Supplement 90, June 1976, Table A 161/04.

1972, on the upside of the business cycle and in a strong equities market, pension funds purchased 15 per cent of all corporate bond issues. On the downside of the business cycle, after the collapse of the equity market in 1972, and the selling of common stock from portfolios, pension fund acquisitions of corporate bonds increased from 15 to 40 per cent of the net new supply of corporate issues between 1973 and 1982. Pension funds therefore supplied well in excess of one-third of the total external long-term debt financing requirements over this period.

Equity financing between 1963 and 1982 raised through the securities market by non-financial corporations in Canada accounted for only 25 per cent of external financing and 12 per cent of total corporate cash flow. This reflects long-term trends as well as the collapse of the equity market during the 1970s. Pension funds nevertheless generated a significant proportion of this equity financing. In this regard it is necessary to differentiate between pension fund acquisitions of corporate equity in primary and secondary markets. Acquisition of new corporate equities, that is, "rights" issues in the primary market by pension funds are a source of external financing or new investment for corporations. However, the trading and purchase of "ordinary" or existent outstanding corporate shares by pension funds, that is, acquisitions in the secondary market, do not directly increase corporate cash flow or capital formation since these shares were previously issued.

Whether pension funds purchase equity in the primary or secondary market is therefore a matter of considerable importance in assessing the private pension system as a source of external funds for the corporate sector. Incomplete statistical information and the inability to differentiate methodologically between primary and secondary market equity acquisitions by pension funds, however, render such an evaluation difficult. Therefore, indirect proxies must be used in such a determination.

In Britain the evidence suggests that occupational pension funds play a limited role in supplying financing for corporations through the primary equity market. Minns, for example, concluded that "institutional shareholders... have not been the leading source of new capital for industrial investment."⁴⁶ Technical work by Briston, Tomkins and King generally confirms that "institutional shareholders have not figured prominently in new issues of shares to the public."⁴⁷ This is explained in terms of the risk-averse behaviour of institutional investors. Their empirical evidence for the period between 1957 and 1969 indicates, however, that pension funds did in fact increase their holdings of primary market issues, but were well below the average for combined institutions.⁴⁸ According to the National Association of Pension Funds, however, of the £ 2,317 million raised by "rights" issues between 1974 and 1977, "pension funds in general [played] a major role in underwriting these issues."⁴⁹ Stock Exchange data indicates that between 1970 and 1976 new issues on average accounted for 20 per cent of the addition to real fixed assets, 16 per cent by way of equity and 4 per cent by means of loan capital.⁵⁰ But the proportion of new equity capital purchased by pension funds is indeterminate.

In the case of Britain, the limited role played by pension funds in supplying funds to corporations through the primary equity market is clearly related to the capital structure of firms with their high level of internal funding and low level of equity financing (Table 7.9). New share issues represented only 1 per cent of the market value of all U.K. quoted equities between 1966 and 1976.⁵¹ Pension funds could not, therefore, purchase what was not offered. This effectively has restricted U.K. pension funds to trading in the secondary market and has limited their role in supplying new equity financing to the corporate sector.

The case of Canada, where more complete information is available, is of some interest with respect to illustrating the impact of

pension fund acquisitions on corporate sector equity financing. On the upside of the business cycle, between 1962 and 1974, Grant's research indicates that total trustee pension plan purchases, that is, primary and secondary market acquisitions, amounted to 175 per cent of the net new supply of corporate equities.⁵² This suggests that pension funds were not only active in the secondary market for ordinary shares, but played a role in the acquisition of new equity issues in the primary market as well. In addition, as was indicated in Table 7.1, shareholders in the personal and foreign sectors were selling outstanding (ordinary) shares to pension funds. This explains the high acquisition rate by pension funds of the net new supply of equities. On the downside of the business cycle, between 1973 to 1983, and in a weak equity market, total pension fund acquisitions of corporate shares declined from 175 to 46 per cent of the net new supply. This is reported in Table 7.11. A similar pattern emerges in the United States and is outlined in Appendix H. These data generally confirm that pension fund acquisitions of corporate shares follow the business cycle, but nevertheless represent a moderate source of funds during the current economic downturn.

While it would be preferable to differentiate between primary and secondary market pension fund acquisitions of shares to determine the impact on corporate financing, such data are not available.⁵³ Knowledgeable estimates by informed sources familiar with the securities market behaviour of institutional investors in Canada, however, suggest that in recent years pension funds have been responsible for purchasing 30 to 50 per cent of all new corporate equity issues,⁵⁴ that is, pension funds have purchased 30 to 50 per cent of the net new supply of corporate shares issued in the primary market for the purpose of equity financing by corporations. This approximation allows us to determine more precisely the extent of private pension fund investment as a source of corporate funds in Canada.

TABLE 7.11

VALUE OF TOTAL¹ EQUITY SHARES PURCHASED BY
PRIVATE PENSION FUNDS AS A PERCENTAGE OF NET NEW ISSUES
AND OF TSE LISTED COMPANIES, CANADA, 1970-1982

| Year | Value of Total Equity Shares Purchased by Pension Funds ¹ (Flow in \$ Million) | Value of New Equity Financing Raised in Primary Market | | Value of Total Equity Shares Purchased by Pension Funds as a % of | |
|---------------------|---|--|---|--|-------------------------|
| | | All New Issues ² (\$ Million) | TSE Listed Companies (\$ Million) | All New Issues | TSE Listed Companies |
| 1970 | 225 | 328 | 141 | 68.6 | 159.6 |
| 1971 | 534 | 330 | 136 | 161.8 | 392.7 |
| 1972 | 687 | 607 | 405 | 113.2 | 169.6 |
| 1973 | 520 | 561 | 195 | 92.7 | 266.7 |
| 1974 | 352 | 769 | 283 | 45.7 | 124.4 |
| 1975 | 540 | 1,241 | 306 | 43.5 | 176.5 |
| 1976 | 900 | 1,210 | 736 | 74.4 | 122.3 |
| 1977 | 204 | 3,143 | 1,205 | 6.5 | 16.9 |
| 1978 | 309 | 6,959 | 1,476 | 4.4 | 20.9 |
| 1979 | 1,290 | 4,390 | 1,514 | 29.4 | 85.2 |
| 1980 | 2,544 | 4,936 | 4,229 | 51.5 | 60.2 |
| 1981 | 2,824 | 6,715 | 3,589 | 42.1 | 78.7 |
| 1982(E) | 2,944 | 4,407 | 3,494 | 66.8 | 84.3 |
| 1973-1982 Average : | | | | 45.7% | 103.6% |
| 1970-1982 Average : | | | | 66.6% | 135.2% |

- Notes: 1. Equity shares (common stock) include purchases of new (rights) issues plus acquisition of outstanding (ordinary) shares in both the primary and secondary markets. It is impossible to "net-out", or differentiate between purchases in the primary and secondary markets. The year over year change in the book value of equity assets was used to derive the annual cash flow into common stock investment.
2. Bank of Canada, Review. The figures used by the Bank of Canada differ somewhat from Statistics Canada's as result of methodology.

Sources: The value of total equity shares purchased was derived from Statistics Canada, Trusted Pension Plans Financial Statistics (Ottawa: Minister of Supply and Services, various years). All new equity issue value from the Bank of Canada, Review. The value of new equity financing of TSE listed companies courtesy of the Toronto Stock Exchange, January 1984.

7.4.3 Pension Funds and the Financing of Corporations. In order to determine the overall impact of the private pension system on corporate finance, the sources of funds for the corporate sector (Table 7.9) have been related to and cross-tabulated with the proportion of funds supplied by pension funds (Tables 7.10 and 7.11) on the upside (1963-1972) and downside (1973-1982) of the business cycle. This is reported in Table 7.12.

In terms of external financing requirements, this analysis suggests that, on the downside of the business cycle, the private pension system in Canada supplied on average 39 per cent of debt financing and 40 per cent of equity financing for corporations between 1973 and 1982. This represents a

TABLE 7.12

The Private Pension System
as a Source of Corporate Funds,
Canada, 1963-1972 and 1973-1982

| Corporate Sources of Funds | Upside 1963-1972 Average | | | Downside 1973-1982 Average | | |
|--|-------------------------------------|----------------------------------|---|-------------------------------------|----------------------------------|---|
| | % of Total Corporate Cash Flow x | % Supplied by Pension Funds = | % Total Corporate Cash Flow Supplied by Pension Funds | % of Total Corporate Cash Flow x | % Supplied by Pension Funds = | % Total Corporate Cash Flow Supplied by Pension Funds |
| Bonds, Long-Term Debt | 13.5 | 15.3 ³ | 2.1 | 7.9 | 39.3 ³ | 3.1 |
| Equity, New Share Capital | 11.1 | 30.0 ⁴ | 3.3 | 12.1 | 30.0-50.0 ⁴ | 3.6-6.1 |
| Total Long-Term External Financing ¹ | 24.6 | 22.0 ⁵ | 5.4 | 20.0 | 33.5-46.0 ⁵ | 6.7-9.2 |
| Total External Financing ² | 42.5 | 12.7 ⁶ | 5.4 | 50.7 | 13.2-18.2 ⁸ | 6.7-9.2 |
| Total Sources of Funds | 100.0 | 5.4 ⁷ | 5.4 | 100.0 | 6.7-9.2 ⁷ | 6.7-9.2 |

Notes: 1. Bonds plus equity.

2. Including short-term debt such as bank loans plus Total Liabilities Other than Debt.

3. Calculated from Table 7.10 and Appendix G-1.

4. Estimate by a major Canadian underwriter and brokerage firm.

5. Weighted average in proportion to bond and equity financing supplied by pension funds.

6. Adjusted for short-term financing included in Total External Financing, therefore 5.4 per cent/42.5 per cent.

7. Total long-term corporate cash-flow supplied by pension funds.

8. Adjusted for short-term financing included in Total External Financing, therefore 6.7 and 9.2 per cent/50.7 per cent.

Sources: Tables 7.9, 7.10, and 7.11, op. cit. and Appendix G-1.

significant increase over the upside of the business cycle when corporations were less dependent upon external sources of financing. In total, pension funds on the upside of the business cycle generated over one-fifth of total long-term external financing as compared with one-third to one-half of long-term external corporate financing on the downside. This is the critical indicator in that it reveals the extent to which the corporate sector must rely on external sources of funds to finance long-term investment requirements in money markets.

Related to total external sources of financing (long plus short-term), pension funds on the upside of the cycle accounted for 13 per cent of total external sources of funds, compared with nearly 20 per cent on the downside of the business cycle. In aggregate, the proportion of total corporate sources of funds generated by the private pension system doubled from 5 per cent on the upside to nearly 10 per cent on the downside of the business cycle. These are not insignificant sums of money. For corporations in the throes of a liquidity crisis on the downside of the business cycle, the infusion of external financing generated by the private pension system may well represent the margin for survival.

The socialization of retirement savings and the institutionalization of pension investment in capital markets has therefore generated an important source of investment at the macro-economic level and has influenced corporate finance. The operation of pension funds in capital markets and the pattern of investment have, as well, effectively transformed the locus of corporate ownership.

7.4.4 Pension Funds and the Locus of Corporate Ownership. The increasing level of pension saving and cash flow invested through the private pension system has, over the course of the past twenty years, altered the configuration of control over investment and the ownership of corporate securities. The ownership of corporate securities, stocks and bonds, has

increasingly shifted from individual to institutional investors, including pension funds, as was reported in Tables 7.1 and 7.2. The locus of control over corporate securities has become increasingly concentrated in the private pension system. The private pension system now has the largest holdings of corporate securities of any major financial institution in Canada. As indicated by Table 7.13, total portfolio holdings of corporate securities (stocks and bonds) by pension funds have increased from nearly 25 per cent in 1964 to 37 per cent in 1979. The sheer magnitude of corporate securities invested in and held by private pension funds results in their now being the major actor in capital markets.

TABLE 7.13

HOLDINGS OF CORPORATE SECURITIES¹ BY MAJOR FINANCIAL INSTITUTIONS,
CANADA, \$ BILLION, SELECTED YEARS, 1964-1979

| <u>Institution</u> | <u>1964</u> | <u>1971</u> | <u>1979</u> |
|--|-------------|-------------|-------------|
| Trusteed Pension Plans | \$1,540 | \$4,488 | \$11,651 |
| Life Insurance Companies ² | 2,524 | 4,560 | 10,972 |
| Chartered Banks | 491 | 1,269 | 7,577 |
| Fire/Casualty Insurance | 337 | 1,070 | 2,961 |
| Trust/Mortgage Companies | 347 | 648 | 2,902 |
| Mutual Funds | 757 | 1,411 | 1,149 |
| Closed-end Funds | 414 | 700 | 393 |
| Finance Companies | 74 | 31 | 8 |
| Total | \$6,6484 | \$14,177 | \$37,613 |
| <hr/> | | | |
| Total Pension Plan Holdings ³ : | \$1,566 | \$5,019 | \$13,967 |
| <hr/> | | | |
| % of Total Corporate Securities Held by Pension Plans ³ : | 24.2% | 35.4% | 37.1% |

- Notes: 1. Stocks and bonds.
2. Including group annuities and segregated funds.
3. Including trusteed pension plans and segregated funds.

Sources: Calculated from the Bank of Canada, Review (Ottawa: n.p., various years) and Statistics Canada, Trusteed Pension Plans Financial Statistics (Ottawa: Minister of Industry, Trade and Commerce, various years).

The ownership of corporate shares or equity through the public and private pension systems is of particular significance because it confers ownership and voting rights upon the shareholder as distinct from bonds which are non-voting debt instruments. As examined earlier, an increasing proportion of corporate equity in Britain and the U.S., and to a lesser extent

in Canada, is now held through the private pension system (Table 7.2). In order to assess the private and public pension system's full impact on capital markets and the corporate sector requires that the total equity base of the retirement income system as a whole be determined and that it be related to stock market activity.

Table 7.14 relates the total equity holdings of the retirement income system - public and private - to the value of Canadian stocks listed on the Toronto Stock Exchange (TSE) between 1966 and 1980. To complete this analysis required the statistical estimation of Registered Retirement Pension Plan (RRSP) assets, and the derivation of the amount of RRSP equity investment (Table 7.14, column 3), reported in Appendix I 1-3, to arrive at the total value of the equity held by the retirement income system. This time-series tentatively suggests that the total value of equity owned and controlled through the pension system increased from 4 per cent in 1966 to 15 per cent in 1980.

This measurement, however, is significantly underestimated by the value of control blocks. Control blocks are the inactive or untraded portion of stock retained by a company when issuing new shares. Total equity issued is equal to the control block plus the stock float. In turn, the control block is equal to the total equity issued minus the shares actively traded, that is, the so-called "stock float". The importance of "netting-out" the value of control blocks is that it allows the value of the stock float, or actively traded shares, to be determined. Control blocks effectively reduce the value of outstanding shares available in the securities market, thereby increasing the proportion of the stock float owned by pension funds. Appendix J estimates the value of stock listed on the Toronto Stock Exchange (TSE) adjusted for control blocks. This is reported in Table 7.14 (column 10).

TABLE 7.14

TOTAL EQUITY BASE OF THE RETIREMENT INCOME SYSTEM
IN RELATION TO THE VALUE OF STOCKS LISTED AND
ADJUSTED FOR CONTROL BLOCKS ON THE TORONTO STOCK EXCHANGE,
MARKET VALUE, BILLION DOLLARS, CANADA, 1966-1980

| Year | Private Pension System | | | Public Pension System | | | (6) | (7) | (8) | (9) | (10) |
|------|------------------------------|--------------------------------|-----|-----------------------|------------------------|---------------------------------|--|--|---|--|--|
| | (1) | | (2) | (3) | | (4) | | | | | |
| | Trusteed Pension Plans | Life Ins. Cos. ¹ | | RRSPs ² | Quebec Pension Plan | Caisse de Dépôt ³ | Total Pension Fund Equity Holdings | Value of Canadian Stocks Listed ⁴ on TSE | Value of Canadian Stocks Listed on TSE, Adjusted for Control Blocks | Value of Canadian Stock on TSE (6/7) | Value of Canadian Stocks on TSE, Adjust- ed for Control Blocks (6/8) |
| 1966 | \$1.295 ⁶ | \$0.160 | | \$0.035 | \$0.000 | \$0.000 | \$1.49 | \$34.5 | \$10.4 | 4.3% | 14.3% |
| 1970 | 2.840 | 0.458 | | 0.096 | 0.212 | 0.000 | 3.61 | 46.5 | 23.3 | 7.8 | 15.5 |
| 1971 | 3.993 ⁷ | 0.694 | | 0.120 | 0.280 | 0.014 | 5.10 | 50.3 | 25.2 | 10.1 | 20.2 |
| 1972 | 5.146 ⁷ | 1.135 | | 0.152 | 0.352 | 0.019 | 6.81 | 64.5 | 32.3 | 10.6 | 21.1 |
| 1973 | 5.052 | 1.271 | | 0.200 | 0.491 | 0.026 | 7.04 | 62.5 | 31.3 | 11.3 | 22.5 |
| 1974 | 3.951 | 1.074 | | 0.256 | 0.601 | 0.054 | 5.94 | 44.2 | 22.1 | 13.4 | 26.9 |
| 1975 | 5.009 | 1.455 | | 0.336 | 0.638 | 0.082 | 7.52 | 51.6 | 25.8 | 14.6 | 29.2 |
| 1976 | 6.106 | 1.739 | | 0.424 | 0.661 | 0.162 | 9.10 | 56.9 | 28.5 | 15.9 | 31.9 |
| 1977 | 6.415 | 1.805 | | 0.483 | 0.618 | 0.223 | 9.54 | 62.4 | 31.2 | 15.3 | 30.6 |
| 1978 | 7.923 | 2.203 | | 0.528 | 0.612 | 0.307 | 11.57 | 79.4 | 55.6 | 14.6 | 20.8 |
| 1979 | 10.719 | 2.634 | | 0.565 | 0.720 | 0.385 | 15.02 | 112.6 | 78.8 | 13.4 | 19.1 |
| 1980 | 15.066 | 3.583 | | 0.580 | 0.879 | 0.617 | 20.73 | 139.4 | 97.6 | 14.9 | 21.2 |

- Notes:
1. Segregated funds and general pension contracts for federally chartered companies. Federally chartered companies account for 96 per cent of the equity holdings of life insurance companies.
 2. Registered Retirement Savings Plans. Note Appendix II-3 for derivation of RRSP assets and the amount invested in equity.
 3. Segregated funds and beginning in 1971 portfolios under management.
 4. Common and preferred shares.
 5. A control block is defined in Section 1 (11) (iii) of the Ontario Securities Act 1978 as "any person, company or combination, holding a sufficient number of any securities of that issuer to affect materially the control of that issuer, but any holding ... [of] more than 20 percent of the outstanding voting securities of an issuer shall ... be deemed to affect materially the control of that issuer." In terms of stock market operation, control blocks (inactive shares of a stock held by an issuer as a result of a long-term investment) are equal to total equity issues minus the active shares of a stock (the stock float). The importance of "netting-out" the value of control blocks is that it allows the value of actively traded stocks to be determined. The estimate for control blocks in the 1960s was 30 per cent, based on the Bank of Nova Scotia, "The Stock Market in Canada," Monthly Review (October 1960), p.1. Control blocks during the 1970s were estimated to be in the order of 50 per cent of the value of stocks listed on the TSE by Dr O.M. Petrovici, TSE Internal Study. As a result of mergers and amalgamations in the late 1970s, control blocks were estimated to be in the order of 70 per cent. Note Appendix J.
 6. 1965.
 7. Extrapolated.

Sources: Calculated on the basis of data contained in Statistics Canada, Trusted Pension Plans Financial Statistics 1978 (Ottawa: Minister of Supply and Services, 1980), Text Table III, pp. 12-13; life insurance company information supplied to the author January 5, 1982 by the Canadian Life and Health Insurance Association; Caisse de Dépôt et Placement du Québec, Annual Report (Québec City: Government of Québec, various years); Toronto Stock Exchange, TSE Historic Trading Summary and Supplement (Toronto: TSE, 1974 and 1981). The author would like to acknowledge his debt to Dr O.M. Petrovici for supplying the methodology to derive the equity holdings for all pension funds as a proportion of the value of Canadian stocks traded on the TSE and estimates for control blocks. Information supplied to the author March 20, 1982 by Dr O.M. Petrovici based on his Paper No. 2 prepared for the TSE, 1976.

These data indicate that between 1966 and 1980, the total value of pension fund equity holdings as a proportion of Canadian stocks on the TSE, adjusted for control blocks, ranged from 15 to 32 per cent. The pension system in Canada over this period on average held 25 per cent of all outstanding corporate equity adjusted for control blocks. By way of comparison, in the United States in 1981 the pension system held 38 per cent of the value of corporate shares adjusted for control blocks. In Britain this was in the order of 42 per cent of the value of corporate shares.⁵⁵ While no one investment under Canadian legislation can constitute more than 10 per cent the total value of an individual pension fund or represent more than 30 per cent of a corporation's shares, the pension system, as a system, has had a clearly demonstrable affect on the institutionalization of capital markets, macro-economic investment, corporate finance, and the locus of control over corporate securities.

There is, however, an increasing structural contradiction between the ability of the pension system to satisfy both the investment requirements of the private sector and the public sector's need for social capital and revenue. A systemic tension exists because the "financing needs of the public sector were smaller than those of the private sector" while the pension system "met a larger proportion of...public sector needs than...those in the private sector."⁵⁶ The increasing capital requirements of the corporate sector in the future, therefore, conflict with government's need for financing and public capital because the pension system is also a source of funds for the capitalist welfare state.

7.5 Pension Funds and the Public Sector

The retirement income system has served a dual purpose in advanced capitalist societies. Social security programs for the aged have in one instance been an important mechanism through which the capitalist welfare state has been able to fulfill its legitimation function, that is,

maintain social harmony.⁵⁷ However, in the post-World War II period, as shall be demonstrated in the case of Canada, the public and private pension systems have also become a major source of funds and social capital for the state. "It is policy in fact to use the monies" of the state pension system "to finance government."⁵⁸ The state, particularly in Canada, therefore, has acquired an independent vested interest in the operation of the pension system, which is not necessarily the same as the private sector's. The opposing structural imperatives - the state for financing and social capital, and the corporate sector for investment capital - may result in considerable political tension having serious implications for pension reform and the economic security of the elderly.

7.5.1 Pensions and the Fiscal Crisis of the Welfare State. The fiscal crisis of the welfare state is but one manifestation of the more generalized crisis of modern capitalist economies.⁵⁹ The fiscal crisis of the state may be defined as the modern capitalist state

increasing its expenditures on social overhead, complementary investment expenditure, socializing... the private costs [and risks] of production and an increasing volume of public investment. The state budget continuously expands owing to the increased degree of economic integration and interdependence. This has led to a... situation where government expenditures are beginning to outstrip revenues.⁶⁰

The continuous series of deficit budgets and the ballooning debt at all levels of government in Britain, Canada and the U.S. in recent years is symptomatic of this situation.

Within the context of unique Canadian constitutional and fiscal transfer arrangements the state retirement income system - the Canada/Quebec Pension Plans - have played an important, but neglected, role in partially alleviating the effects of the fiscal crisis of the state.⁶¹ The private pension system to a lesser extent has performed a similar function.

7.5.2 The Private Pension System and Public Finance. The private pension system is a source of funds for the state. In Canada, private pension funds purchased 28 per cent of the value of all net new marketable government bonds placed in Canada between 1970 and 1982, as indicated in Table 7.15. Pension funds were the largest institutional buyer of bonds (Table 7.1). Private pension fund holdings of government bonds (all levels) have increased from 1 to 4 per cent of total government revenue over this period. More significantly, federal government bonds held by private pension funds increased from nearly 2 to 9 per cent of total federal government revenue on a consolidated national income accounts basis, between 1970 and 1981.⁶²

TABLE 7.15
PRIVATE PENSION FUND ACQUISITION
OF GOVERNMENT BONDS¹ AS A PERCENTAGE
OF NET NEW MARKETABLE GOVERNMENT BONDS PLACED IN
CANADA, 1970-1982

| Year | Value of Government Bonds Purchased by Pension Funds (Flow in \$ Million) | Value of Net New Marketable Government Bonds Placed in Canada (\$ Million) | Value of Bonds Purchased by Pension Funds as a % of Net New Government Bonds |
|--------------------|--|--|--|
| 1970 | 229 | 1,605 | 14.3 |
| 1971 | 298 | 1,934 | 15.4 |
| 1972 | 350 | 1,589 | 22.0 |
| 1973 | 413 | 1,230 | 35.6 |
| 1974 | 464 | 2,348 | 19.8 |
| 1975 | 878 | 3,913 | 22.4 |
| 1976 | 1,375 | 5,789 | 23.7 |
| 1977 | 1,988 | 7,937 | 25.0 |
| 1978 | 2,396 | 7,971 | 30.1 |
| 1979 | 3,573 | 10,516 | 33.9 |
| 1980 | 3,588 | 14,262 | 25.2 |
| 1981 | 5,706 | 9,667 | 59.0 |
| 1982 | 4,034 (E) | 12,005 | 36.0 |
| 1970-1982 Average: | | | 27.9% |

Note: 1. Including marketable federal, provincial and municipal bonds, exclusive of Canada Savings Bonds (CSBs) and non-marketable provincial government bonds held through the CPP which are not bought by institutions.

Sources: The flow of pension fund investment into government bonds was calculated from Statistics Canada, Trusted Pension Plans Financial Statistics (Ottawa: Minister of Supply and Services Canada, various years), Text Table V. Net new marketable government bonds, exclusive of CSBs and CPP, calculated from the Bank of Canada, Review, December 1971 and 1981, Table 21 and Table 28.

In Britain, private pension funds are second only to life insurance companies in terms of institutional holdings of government bonds (gilts). Pension funds held 16 per cent of all British government securities in 1978.⁶³ Pension funds are now sufficiently powerful that a decision to hold back from investing in these securities can force the government to raise interest rates and modify its economic policy. This was demonstrated during the so-called "investment" strike in 1977.⁶⁴ The private pension system has thus served as a source of funds for government. Over the past twenty years in Canada, however, it has been the state pension system which has played an increasingly important economic role.

7.5.3 The State Pension System: Saving and Investment. Since the inception of the Canada and Quebec Pension Plans in 1966, the state pension system has been an important actor at the macro-economic level. Net public pension saving has accounted for 4.5 to 7.0 per cent of gross saving in the economy between 1970 and 1980 (Table 6.3). In turn, net public pension saving through the C/QPPs has on average generated 11 per cent of all net private domestic investment (including public corporations) over this period.¹²⁷

The state pension system is as well an important source of internal government savings. Table 7.16 indicates that social security savings have ranged from 30 to 54 per cent of total government savings. The significance of the savings generated through the C/QPPs at the macro-economic level is that "if social security savings were not available for government financing ... the total government deficit would have been 50 per cent higher in 1978."⁶⁶

In addition to influencing savings and investment, the state retirement system has helped to moderate the federal government's chronic deficit position in recent years. The state pension system has directly

TABLE 7.16
SOCIAL SECURITY SAVINGS
AS A PERCENTAGE OF TOTAL GOVERNMENT SAVINGS,
CANADA, 1968-1978

| Year | Social Security Savings (\$ Millions) | Total Government ² Savings (\$ Millions) | Social Security Savings as a % of Total Government Savings |
|------|--|--|---|
| 1968 | 1,003 | 3,030 | 33.1 |
| 1969 | 1,113 | 4,183 | 26.6 |
| 1970 | 1,193 | 3,327 | 35.8 |
| 1971 | 1,278 | 2,510 | 50.8 |
| 1972 | 1,375 | 2,570 | 53.5 |
| 1973 | 1,472 | 3,832 | 38.4 |
| 1974 | 1,780 | 6,122 | 29.1 |
| 1975 | 2,003 | -212 | 100+ |
| 1976 | 2,183 | -43 | 100+ |
| 1977 | 2,259 | -1,703 | 100+ |
| 1978 | 2,383 | -4,325 | 100+ |

Notes: 1. Total C/QPP revenues minus total C/QPP expenditures.
2. All levels of government.

Source: Arthur W. Donner and Fred Lazar, "The Impact of Social Security Financing on Capital Markets in the 1980s", Report of the Royal Commission on the Status of Pensions in Ontario, Vol. IX, Background Studies and Papers (Toronto: Queen's Printer, 1980), Table 46, p. 210.

affected capital markets, public finance and economic development by acting as a financial intermediary and institutional investor.

7.5.4 State as Institutional Investor. The state pension system in Canada functions as an institutional investor and is the backbone of provincial government financing. The establishment of the Canada/Quebec Pension Plans, according to a major study, has "resulted in some of the most important changes of the decade in financial intermediation and capital market functions in Canada."⁶⁷ The federal government through the operation of the state retirement system "has become a principal with a force" and has the "same goals as other financial institutions."⁶⁸ As a financial intermediary and institutional investor, the state pension system is a competitor to the private sector in capital markets.

The Canada/Quebec Pension Plans have provided both a source of operating funds and developmental capital for the federal and provincial

governments. Net C/QPP saving (contributions minus benefits) was on average equivalent to 3.0 per cent of total government revenue at all levels and 6.5 per cent of federal government revenue between 1970 and 1981.⁶⁹

The capital pool accumulated through the Canada/Quebec Pensions Plans is one of the largest in Canada. The surplus in the CPP investment fund - that is, those monies left over on a current basis after benefits have been paid - are loaned to the provinces at a preferential interest rate in proportion to the contributions which have flowed from each province. This is outlined in Table 7.17. In Canada there is a close relationship between the state pension system and government expenditure and capital accumulation. Capital is the name of the game. Canada's sub-central governments - the provinces - have recognized this relationship for many years. One provincial official involved in the negotiation of the Canada Pension Plan in 1965 commented that

TABLE 7.17

CANADA PENSION PLAN,
DISTRIBUTION OF EXCESS FUNDS, 1966 TO MARCH 31, 1979

| Province | Distribution of Excess Funds | |
|----------------------|---------------------------------|-------------|
| | % | \$(Million) |
| Newfoundland | 2.0 | 284.5 |
| Prince Edward Island | 0.4 | 57.7 |
| Nova Scotia | 3.9 | 559.8 |
| New Brunswick | 3.0 | 425.2 |
| Quebec ¹ | 0.5 | 74.0 |
| Ontario | 54.6 | 7,769.4 |
| Manitoba | 5.8 | 828.2 |
| Saskatchewan | 4.5 | 637.3 |
| Alberta | 9.8 | 1,399.1 |
| British Columbia | 14.7 | 1,095.3 |
| Canada | 0.7 | 95.7 |
| Total | 100.0% | \$14,226.1 |

Note: 1. Quebec has its own pension plan. The amounts available to it relate only to federal employees, including Armed Forces personnel, who are resident in the province but are excluded by legislation from the Quebec Pension Plan.

Source: Health and Welfare Canada, Canada Pension Plan - Report Ending March 31, 1979 (Ottawa: Health and Welfare Canada, 1981), Table 5, p. 17.

the main reason for us was the creation of a large fund. It would provide money for development...and give us more liberty in money markets. The fund was certainly the main reason for me: it was the reason.⁷⁰

Accordingly, the CPP investment fund has had a substantial impact on provincial government financing and economic development.

The CPP investment fund has become "the backbone of provincial debt financing."⁷¹ The CPP supplied nearly 38 per cent of all provincial borrowing on average between fiscal 1969-70 and 1978-79.⁷² This is outlined in Table 7.18. Previously the provinces relied heavily on private capital markets to supply their borrowing needs, whereas under current arrangements they raise a substantial share of their funds through the CPP, as does Quebec through the separately managed QPP. The weight of evidence suggests that the provinces have substituted CPP and QPP loans for other forms of borrowing as a result of lower than market interest rates paid by the provinces on funds.⁷³ Donner concluded that "the provinces and their agencies have relied heavily on [the] CPP and QPP for direct finance"⁷⁴ resulting in higher expenditures and lower taxes for the provinces.⁷⁵

This situation has had a significant impact on provincial government financing. In Ontario, Canada's most populated and industrialized province, total non-public sources of borrowing represented 97 per cent of the provinces total borrowing between 1966-67 and 1977-79. According to one report, "the Canada Pension Plan has been the largest source of funds, accounting for two-thirds of the accumulated total"⁷⁶ of Ontario's borrowing. The cumulative financing available to Ontario from non-public sources such as the CPP has exceeded Ontario's cumulative cash requirements. This has permitted Ontario to limit its public borrowing. In British Columbia, over the past thirteen years, public borrowing has provided about one-third of the capital requirements of provincial crown

TABLE 7.18
ISSUES OF BONDS AND DEBENTURES BY PROVINCIAL GOVERNMENTS,
CANADA, FISCAL YEARS 1969-70 TO 1978-79

| Source | 1969-70 | 1970-71 | 1971-72 | 1972-73 | 1973-74 | 1974-75 | 1975-76 | 1976-77 | 1977-78 | 1978-79 ¹ |
|--------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|---------|----------------------|
| To CPP Investment Fund | | | | | | | | | | |
| Amount (Millions) | 735.2 | 752.1 | 794.3 | 891.7 | 964.7 | 1,191.6 | 1,369.2 | 1,454.6 | 1,496.6 | 1,658.3 |
| Average Interest Rate | 7.75 | 7.79 | 7.07 | 7.37 | 7.53 | 8.54 | 8.95 | 9.0 | 9.08 | 9.56 |
| % of Total Issues | 42.85 | 42.31 | 38.84 | 37.23 | 41.29 | 40.26 | 39.67 | 27.95 | 33.35 | 28.65 |
| To Foreign Market | | | | | | | | | | |
| Amount (Millions) | 590.6 | 262.8 | 348.8 | 764.2 | 586.0 | 705.0 | 1,281.1 | 1,281.1 | 1,244.9 | 1,613.6 |
| Average Interest Rate | 8.33 | 9.10 | 8.21 | 7.42 | 7.99 | 9.42 | 9.24 | 9.24 | 7.83 | 8.91 |
| % of Total Issues | 34.41 | 14.79 | 17.05 | 31.90 | 25.08 | 23.82 | 27.76 | 27.76 | 27.74 | 27.88 |
| To Provincial Pension Plan | | | | | | | | | | |
| Amount (Millions) | 126.7 | 163.6 | 259.1 | 210.8 | 320.1 | 424.2 | 367.6 | 509.0 | 690.8 | 651.8 |
| Average Interest Rate | 5.56 | 6.91 | 7.42 | 7.92 | 8.06 | 8.86 | 10.05 | 10.11 | 9.72 | 9.60 |
| % of Total Issues | 7.38 | 9.20 | 12.67 | 8.80 | 13.70 | 14.33 | 7.96 | 9.78 | 5.40 | 11.26 |
| Through Investment Dealers | | | | | | | | | | |
| Amount (Millions) | 153.6 | 515.0 | 436.5 | 385.0 | 257.3 | 456.9 | 1,085.0 | 820.0 | 191.0 | 520.0 |
| Average Interest Rate | 8.44 | 8.83 | 7.48 | 7.95 | 8.51 | 9.64 | 10.03 | 9.81 | 8.55 | 9.79 |
| % of Total Issues | 8.95 | 28.97 | 21.34 | 16.07 | 11.01 | 15.38 | 23.51 | 15.76 | 4.25 | 8.99 |
| To Public (Savings Bonds) | | | | | | | | | | |
| Amount (Millions) | - | 56.0 | 127.7 | 96.7 | 133.2 | 98.9 | 301.1 | - | 30.8 | 210.4 |
| Average Interest Rate | - | 8.50 | 7.37 | 7.35 | 8.50 | 8.68 | 8.50 | - | 8.25 | 8.96 |
| % of Total Issues | - | 3.15 | 6.25 | 4.04 | 5.71 | 3.34 | 6.52 | - | 0.69 | 3.64 |
| To Provincial Government Enterprises | | | | | | | | | | |
| Amount (Millions) | 100.0 | - | 50.0 | 34.0 | 75.0 | 85.0 | 74.0 | 190.0 | 445.0 | 635.2 |
| Average Interest Rate | 8.50 | - | 8.38 | 8.25 | 8.63 | 10.19 | 9.46 | 10.02 | 9.74 | 10.00 |
| % of Total Issues | 5.83 | - | 2.44 | 1.42 | 3.21 | 2.87 | 1.60 | 3.65 | 9.92 | 01.98 |
| To Provincial Governments | | | | | | | | | | |
| Amount (Millions) | 10.0 | 28.0 | 28.8 | 13.0 | - | - | 137.5 | 601.4 | 388.0 | 498.0 |
| Average Interest Rate | 7.45 | 6.93 | 7.33 | 7.52 | - | - | 9.67 | 9.05 | 9.06 | 9.91 |
| % of Total Issues | 0.58 | 1.58 | 1.41 | 0.54 | - | - | 2.98 | 11.56 | 8.65 | 8.60 |

Note: 1. Preliminary.

Source: Calculated from Statistics Canada, Provincial Government Finance: Assets, Liabilities Sources and Uses of Funds (Ottawa: Minister of Supply and Services, various years).

corporations. Without CPP funds, nearly two-thirds of these capital requirements would have been borrowed in private securities markets. In total, it has been estimated that funds borrowed from the CPP have saved the provinces nearly 3 per cent on provincial debt charges.⁷⁷

Depending upon the province, in the early and mid-1970s, borrowing from the CPP fund was a source of cash flow for current operating expenditures or social investment in infrastructure (public capital). In this regard two distinct patterns emerge. In the Atlantic provinces borrowing from the CPP fund has been part of general borrowing and has been used for current operating expenditures. In Western Canada, British Columbia, Saskatchewan and until recently Manitoba, however, CPP borrowings have been used to finance the investment requirements of crown corporations, whereas in Alberta the funds are used to finance municipalities. In Ontario, 43 per cent of all investment in infrastructure between 1972-73 and 1976-77 was financed through the CPP.⁷⁸ At the provincial level in Western Canada, the use of CPP funds to finance the capital requirements of the crown sector has clearly affected the pattern of economic development.⁷⁹ The investment objectives of the Caisse de Dépôt, the investment arm of the Quebec Pension Plan, are explicitly related to provincial economic development.

Another source of non-public borrowing which must be analyzed in conjunction with the CPP is provincial borrowing from internal pension funds, that is, public employee pension funds. Based on the data in Table 7.18, 7 to 14 per cent of all provincial bonds and debentures were issued to their own captive public sector employee pension funds between 1969-70 and 1978-79. This is government "self-financing" through the pension system. In Ontario, for example, between 1966-67 and 1977-78, borrowing from public employee pension plans accounted for nearly 32 per cent of total net non-public borrowing.⁸⁰ Public employee pension funds, as with the CPP,

have provided the provinces with an alternative capital market. In aggregate, Canada Pension Plan and public employee pension fund holdings peaked in fiscal 1973-74 accounting for 55 per cent of total provincial government bond and debenture issues. While this proportion subsequently declined to 40 per cent in 1978-79, it nevertheless remains the case that non-public borrowing by the provinces from the CPP and public employee pension funds continues to be a major source of funds and is the backbone of their borrowing capacity and debt structure.

This evidence suggests that the Canada Pension Plan while in a surplus position has muted the fiscal crisis of the state for Canada's provincial governments by providing them with additional "tax room" and a source of social investment for economic development. In the future if the public pension system was expanded the "funds...made available to governments... would have the effect of eliminating the need for provincial borrowing for a long time to come and could have an enormous effect on provincial budgets and financial power."⁸¹

The fiscal crisis of the state in Canada has been ameliorated for the provincial governments in the past by their ability to draw on the surplus generated from the CPP investment fund. This situation is rapidly coming to an end, however, and, in turn, will trigger a chain-reaction of events. Based on the existent total contribution rate of 3.6 per cent of income to the CPP (up to the yearly maximum pensionable earnings), cash flow to the provinces from the CPP investment fund will turn negative in 1992.⁸² The provinces will then have to begin repaying the interest on the outstanding loans.⁸³ In the year 2011, when members of the "baby boom" begin to retire, the CPP fund will go into a disaccumulation or dissavings position.⁸⁴ This means that the provinces will have to repay the principal and interest on their loans so that the CPP fund can honour its commitment to pay benefits. This sequence of events has profound ramifications on

public finance for the provinces. More to the point, it sets in motion a "domino effect" having repercussions for all levels of government.

Canada/Quebec Pension Plan financing, that is, the contribution level will have to be significantly increased in the near-term just to pay for current benefits. To the extent that contribution rates are increased above current levels to pay for improved benefits, and depending on the method of funding and the phase-in of new contribution rates, the cash flow into the CPP investment fund and the size of the fund may double.⁸⁵ While such an expansion of the public pension system would improve the economic position of the elderly, and the cash flow position of the provinces, it would come at the expense of the private pension system. This is because a doubling of the income replacement rate under the C/QPP to improve the economic position of the elderly would reduce the savings and investment flowing through and under the control of the private pension system by an estimated \$88 billion or some 31 per cent, with a resultant impact on private capital markets.⁸⁶ Thus, the structurally determined interests of the elderly for improved retirement income and the financing requirements of the provinces conflict with the private sector's need for capital and the private pension industry's institutional survival.

In the most fundamental sense what is at issue is power, control over capital, and capital accumulation. "Pension policy" one study concluded is "an issue of power, power to control and allocate the capital generated through the savings put aside by workers for their old age."⁸⁷ What public policy and the pension reform debate turns on in Canada is the structure of the capital market, and who shall control pension savings, investment and capital formation: the private sector, the provinces, or the federal state. Given that there are five major pension actors - the federal government, the provinces, the private sector, the labour movement and the elderly - suggests that a number of scenarios might unfold should

federal-provincial negotiations commence to reform Canada's public retirement income system.

Under conditions of advanced capitalism the public and private pension systems are integrally related to the capital accumulation process and financing arrangements in the private and state sectors. Control of that capital by the federal or provincial governments in Canada is one way in which they will attempt to grapple with their respective fiscal crises. At the same time, it provides a source of developmental capital for the state, should the political will exist. The structurally determined interests of the elderly and the state are, however, opposed to those of the private sector and private pension industry. In the final analysis it is the impact of the private pension system on capital markets and the fiscal implications underlying the state pension system which will be the driving forces behind pension reform and the form in which it is realized.

7.6 The Institutionalization of Capital Markets: Implications

The pension system now occupies a strategic position and performs a series of vital functions in the advanced capitalist economies of Britain, Canada and the United States. In the post-war period the pension system as a financial intermediary and institutional investor has become a dominant force in capital markets. The power and strength of the private pension system is based on its ability to channel, accumulate and control savings and investment. In turn, under conditions of mature capitalism, there has been an increased socialization and institutionalized of retirement savings and investment channelled through the pension system, with a resultant impact on the operation and configuration of capital markets. The associated institutionalization of investment has affected the level, type and pattern of investment, with a consequent affect on macro-economic investment and corporate and public sector finance.

The central role now performed by the private pension system in generating investment to promote capital accumulation in the private sector

and the concomitant impact on financial markets in advanced capitalist economies generates, as demonstrated in the case of Canada, a number of important structural contradictions having serious implications for pension reform. The current pension reform debate in Canada is dominated by a series of policy and political trade-offs. These structurally determined trade-offs, based on the opposing interests of the various pension actors, are identified and briefly examined below.

First, there are the opposing interests of the private sector and the elderly. There is a conflict between the investment and capital accumulation requirements of the corporate sector, and the operation of capital markets to satisfy them, and the elderly's imperative for economic security. Pension funds as a source of capital formation are central to the current policy debate because the business community fears that an expansion of the public pension system would result in it being deprived of a prime source of investment capital. A related fear is that an expansion of the public pension system would result in government domination of capital markets. The private pension system, characterized by a series of universal limitations as analyzed in Chapter 4, has proven itself to be an inadequate delivery system for retirement income. The elderly's need for adequate retirement income, described in Chapter 3, requires an expansion of the public pension system. The opposing interests of the private sector and elderly have been clearly identified by the business media. One editorial argued, for example, that "the disposition of pension assets needs just as thorough an airing in the coming discussions as does the question of benefits."⁸⁸ Therefore, in terms of public policy formulation and the politics of pension reform the alternative becomes private sector capital accumulation through the inadequate private pension system or adequate retirement income for the elderly based on an expanded public pension system.

Second, there is a tension in capital markets, particularly in Canada, between the interests of the private sector and the state: an antagonism exists between the corporate sector's requirement for increased investment capital through the private pension system and the federal and sub-central state's requirements for social capital and operating revenue generated through the public pension system. This antagonism manifests itself in a number of ways. The Canada/Quebec Pension Plans must be refinanced in the near future, requiring increased contributions to maintain current benefit levels. As a result of the corporate sector's cost minimization behaviour, it may be expected that the required increase in contribution levels will be resisted. More importantly, expansion of the public pension system, which would improve the economic situation of the elderly, and the cash flow position of the provinces, would come at the expense of the private sector by shifting pension savings and investment from the private to the government sector, with a consequent reduction in the control over and amount of capital available for the business community. In the most fundamental political sense, expansion of the state pension system represents the shifting of the savings and investment function from the private to the public sector and a more important role for government in capital markets. This will be resisted by the private sector, not only for ideological reasons, but also because of its structural imperative for investment to augment the capital accumulation process. This poses the alternative of either adequate public pensions and government control over capital formation or inadequate occupational pension plans and private sector control over capital.

From the perspective of political economy, pension reform becomes a battleground over the control and direction of the savings, investment and reserve capital generated from the pension system. Within this context, a political dynamic might develop, especially in Canada, based upon the structurally determined vested interests of the respective pension

actors, where there is an alliance between the elderly, organized labour and the state against the corporate sector.

Third, the battle over pension capital will affect the mode of pension reform. In terms of public policy formulation there is a close inter-relationship between pension plan coverage and the saving and investment function performed by the private and public pension systems. In order to provide retirement income for the elderly requires that they be covered by some type of pension plan. Social security policy as it has historically evolved has incorporated a tension between compulsory or voluntary coverage. In order to resolve the coverage problem, however, clearly requires some type of mandatory or compulsory pension arrangement for the labour force. This in turn poses the question: what type of mandatory coverage? Within the pension reform debate, and from a public policy perspective, the alternative which has emerged is universal coverage through the public pension system or a regime of mandatory coverage through the employer-based private pension system.

Within this context the manifest saving and investment function underlying the operation of the private and public pension systems assumes considerable importance with respect to pension reform and the operation of capital markets. The proposals put forward by the Canadian Life and Health Insurance Association, the Lazar report's Options II and III, and the Government of Ontario's Royal Commission on the Status of Pensions recommendation for a provincial universal retirement system (PURS) to provide mandatory pension plan coverage through the private pension industry would have the effect of creating a captive market for pension savings and a private monopoly channelling investment to the private sector. Similar proposals were advanced by the President's Commission on Pension Policy (1981) and the white paper on the reform of social security in the U.K. (1985). The various private pension industry proposals for

mandatory private coverage to stave off expansion of the public pension system in Canada would have increased the assets under their control by nearly 25 per cent, from \$52 billion to a conservatively estimated \$64 billion in 1981.⁸⁹ This pool of captive pension savings would, of course, be cycled through capital markets as investment to the private sector to augment capital accumulation and profitable business activity. Conversely, an expansion of the public pension system would result in a significant increase in the pool of pension capital available to and under the control of government for investment. This would result in an increased government presence in capital markets and substantial control over investment.

Generating increased investment through either the private or public pension systems for the private sector would increase the already considerable power exercised by the private pension system in capital markets. The battle over pension reform therefore clearly poses the policy alternative of either public or private sector pension reform. The specific modality of pension reform, therefore, has serious implications for the locus of control over saving, investment, corporate securities and the operation of capital markets.

Fourth, the type of pension reform - public or private sector - has implications for investment objectives and strategies. The manifest saving and investment function now incorporated into the operation of the private pension system has resulted in an increasing fusion between and integration of financial and industrial capital. This is a natural consequence of financial intermediaries and institutional investors, such as pension funds, investing in the corporate sector through the securities market. The private pension system now has the largest institutional holdings of corporate securities, including equity which bestows ownership and voting rights. This may have political implications for transforming control over the corporate sector and might suggest progressive, alternative investment strategies by organized

labour with respect to the occupational pension system at the enterprise or industry level. Alternatively, expansion of the public pension system, particularly in the case of Canada, would generate a surplus (where contributions are greater than benefits) resulting in a substantial investment fund. The existence of such a fund poses the question for what purpose is it being accumulated, that is, what are its investment objectives? Depending upon political circumstance, such an investment fund might provide the state with a source of developmental capital to pursue alternative economic strategies under democratic control. Using the public and private pension system's saving and investment function to promote progressive economic development strategies and social change in advanced capitalist economies is dealt with in Chapter 10.

Capital is at the heart of the political economy of pensions and pension reform. The manifest functions of the private pension system, the institutionalization of capital markets, and the formal organization of pension fund power are inter-related. This organic relationship is specific to a particular institutional framework. The focus must therefore shift from a functional to an institutional analysis of pension fund power.

CHAPTER 8

THE STRUCTURE OF PENSION FUND POWER

"Expropriation is accomplished by the action of the... laws of capitalism... by the centralization of capital."

Karl Marx

8.1 Introduction

The elements constituting the political economy of pensions identified and examined in the preceding chapters have included the economic position of the elderly, the economics of the demographic transition, the universal limitations of the private pension system, the tensions associated with the occupational pension system under conditions of collective bargaining and the pension system's saving, investment and capital accumulation function.

It was established that the saving, investment and capital accumulation function is now central to the operation of the private pension system, with the resultant socialization and institutionalization of retirement savings and capital markets under conditions of advanced capitalism. The private pension system's economic power is explained in terms of its ability to channel investment capital to and augment the capital accumulation process in the private sector. A symbiotic relationship has developed between the investment requirements of the macro-economy and corporate sector, supplied through the private pension system, and the private pension industry's imperative for survival. This has resulted in a corresponding underdevelopment of the public pension system, which perpetuates the immiseration and marginalization of the elderly. The economic functions inherent to the operation of the private pension system

are integrally related to and manifest themselves through the institutional structure, that is, organization of pension fund power.

The purpose of this chapter is to delineate the formal structure of pension fund power and to identify those "laws of motion" which result in an increased concentration and centralization of economic power residing in the private pension system under conditions of advanced capitalism. A number of inter-related topics are examined. First, the power associated with the operation of the private pension system is identified as the pool of capital, that is, the asset base under the control of the private pension industry in advanced capitalist economies. In the post-war period there has been an accelerated growth of private pension fund assets, or reserve capital, with a resultant concentration of economic power. Second, the tendency towards the concentration and centralization of pension fund capital is identified as the primary explanatory factor with respect to the institutional power of the private pension system. The centralization and concentration of pension fund capital is a reflection of these more global tendencies in capitalist economies.

Third, the dramatic growth of private pension fund assets has resulted in the concentration and centralization of pension fund capital among a relatively few dominant financial institutions or actors such as individual trustee pension plans and trust companies in Canada, and banks and life insurance companies in the U.K. and U.S. Fourth, as a consequence, the locus of control over pension fund capital resides in the financial sector because pension plan trustees generally delegate investment responsibility to dominant financial institutions. The private pension system, as a sphere or "region" within the finance sector, with formal and informal interconnections to it, therefore is organically integrated with financial capital. The growth of pension fund assets as the largest pool of capital in advanced capitalist economies has accordingly resulted in an increased

concentration of economic power under the control of the finance sector in the post-war period.

8.2 Formal Structure of Power: Overview

Funding agencies such as trust companies, banks and life insurance companies, taken together in conjunction with service agencies such as actuarial consultants, plan administrators and investment counsellors can be described as the private pension industry, constituting the formal institutional structure of pension fund power. The notion of "formal structure" as used here refers to "that part of ... a group or organization that is defined explicitly by rules or expectations."¹ The formal structure of pension fund power is the institutional organization of the private pension system as it has developed in law and practice.

The economic power associated with the formal organization of the private pension system is explained in terms of its control over a significantly growing pool of pension assets flowing from increased pension saving and investment, the tendency towards the concentration and centralization of pension fund capital among a relatively few economic actors, and the formal and informal linkages to the broader finance sector and industrial capital. The institutional strength of the private pension system is related to its now manifest economic functions to promote capital accumulation in the private sector.

8.3 Growth of Pension Fund Capital

The substantial growth of pension fund assets as a major pool of capital in the post-World War II period in Canada, Britain and the U.S. indicates the importance of the subject. The growth of pension fund assets, both in absolute and relative terms, determines the extent of their economic power. The information presented here suggests that pension funds are one of the most rapidly growing and dynamic institutional investors within the

finance sector, and one of the largest pools of capital in advanced capitalist economies.

The growth of pension fund assets in Canada, Britain and the U.S. in the post-war period has significantly exceeded the growth in assets experienced by all financial institutions and non-bank intermediaries in the finance sector. As indicated in Table 8.1 pension fund assets have experienced an annualized compounded growth rate of 13 per cent in the U.S., 15 per cent in Canada and 16 per cent in Britain. This contrasts with a growth rate for all financial intermediary assets of 9 per cent in the U.S., 11 per cent in Canada and 18 per cent in Britain. The rate of growth of pension fund assets has significantly exceeded that of the finance sector, particularly in the U.S. and Canada. In terms of absolute growth the assets of all financial intermediaries in Canada between 1946 and 1979 increased nearly 33 times, while pension fund assets increased by a factor of 95.

TABLE 8.1
COMPARISON OF GROWTH RATES OF PENSION FUNDS,
NON-BANK FINANCIAL INTERMEDIARIES AND ALL FINANCIAL INTERMEDIARIES,
CANADA, U.K., AND U.S. IN THE POST-WAR PERIOD

| | \$ Million | | % Annualized Compounded Rate of Growth |
|---|------------|---------|---|
| | 1946 | 1979 | |
| CANADA | | | |
| All Financial Intermediaries ¹ | 11,850 | 398,800 | 11.2 |
| Private Non-bank Intermediaries | 4,926 | 188,600 | 11.7 |
| Pension Funds ² | 455 | 43,250 | 14.8 |
| | | | |
| | £ Billion | | |
| | 1963 | 1981 | |
| BRITAIN | | | |
| All Financial Institutions ¹ | 30.4 | 583.7 | 17.8 |
| Non-bank Institutions | 9.1 | 252.0 | 20.3 |
| Pension Funds ³ | 5.8 | 85.0 | 16.1 |
| | | | |
| | \$ Billion | | |
| | 1950 | 1980 | |
| UNITED STATES | | | |
| All Financial Intermediaries ¹ | 286.6 | 3,761.8 | 8.9 |
| Non-bank Finance | 138.8 | 2,375.5 | 9.9 |
| Pension Funds ⁴ | 11.7 | 484.9 | 13.2 |

Notes: 1. Bank plus non-bank financial intermediaries.
2. Trusteed and insured pension plus segregated funds of life companies.
3. Private, public and Local Authority pension funds, and estimated assets of insured pension plans of life companies.
4. Private insured pension funds and state and local government retirement funds.

Sources: Appendix K 1-3.

Pension fund assets have grown at a faster rate than the assets of chartered banks and life insurance companies over this period. In the U.S. the assets of all financial intermediaries increased 13 times, compared with a 41 fold increase in pension fund assets between 1950 and 1980. Projections for the U.S. suggest that total pension fund assets will exceed those of all non-bank savings institutions by 1990.²

The significant relative and absolute growth in pension fund capital is attributable to the moderate growth of occupational pension plan coverage (Chapter 4) and the increased proportion of personal saving channelled through and invested by the private pension system (Chapter 6). Between 1960 and 1980 the annualized compounded rate of growth for total private pension assets was 11 per cent in the U.S., 14 per cent in Canada and 18 per cent in Britain. This is reported in Table 8.2 (using a different but more comparable time period than presented in Table 8.1). Pension fund assets have doubled every 6 to 10 years between 1960 and 1980, depending upon the country; this asset base is now doubling every 5 years. Pension funds have therefore become the growth center within the finance sector over the past four decades in advanced capitalist economies.

TABLE 8.2
GROWTH OF PENSION FUND ASSETS,
BRITAIN, CANADA, AND U.S., 1960-1980

| Country | Billion National Currency Units | | % Annualized Compounded Rate of Growth |
|----------------------|---------------------------------|-------|--|
| | 1960 | 1980 | |
| Britain ¹ | 3.3 ² | 85.0 | 17.6 |
| Canada ³ | 4.8 | 65.5 | 13.9 |
| U.S. ⁴ | 90.8 | 727.1 | 10.9 |

- Notes: 1. Non-insured and insured pension schemes. Assets of insured schemes estimated at one-third of the contribution cash-flow of funded schemes.
2. Estimated.
3. Trusteed and insured pension plans plus the segregated funds of life insurance companies.
4. Non-insured and insured pension plans and all government retirement funds.

Sources: CSO, Financial Statistics (London: HMSO, various years); Statistics Canada, Trusteed Pension Plan Financial Statistics (Ottawa: Minister of Supply and Services, various years); Bank of Canada, Statistical Summary (Ottawa: n.p., various years) and the Statistical Abstract of the United States, 1982-83 (Washington, D.C.: GPO, 1982), Series 537, p. 330.

The growth of pension fund assets in the future may be even more impressive than in the past. In the case of Canada, for example, according to projections by the Economic Council of Canada, given current growth rates and depending on demographic assumptions, the assets of trustee pension plans will increase from 16 per cent of gross national product (GNP) in 1981 to 50 to 66 per cent of GNP by 2031 (Table 8.3). The private pension system over the next thirty years will therefore be the major repository for the savings of workers and a major source of investment capital for the economy. By any standard, the growth of pension fund capital in recent decades has been impressive, if not startling. This growth has concurrently altered the configuration of the finance sector and accelerated the concentration of capital among a few major institutions in advanced capitalist economies.

TABLE 8.3

ESTIMATED BOOK VALUE OF
TRUSTEED PENSION PLAN ASSETS
AS A PROPORTION OF GNP, CANADA, 1981-2051

| Year | Trusteed Pension Plan Assets as a Per Cent of GNP Under Varying Demographic Growth Rates | |
|------|--|-----|
| | Medium | Low |
| 1981 | 16 | 16 |
| 1991 | 25 | 27 |
| 2001 | 35 | 38 |
| 2011 | 42 | 50 |
| 2021 | 48 | 60 |
| 2031 | 50 | 66 |
| 2041 | 50 | 66 |
| 2051 | 50 | 66 |

Source: Estimated from the Economic Council of Canada, One in Three: Pensions for Canadians to 2030 (Hull: Minister of Supply and Services, 1979), Chart 6-2, p. 54. Figures rounded.

8.4 Concentration of Pension Fund Capital

As used by Marx, the term "concentration of capital", refers to the process whereby the quantity of capital controlled by individual capitalists or capitalist corporations (industrial and financial) increases over

time. In this sense the concentration of capital is a natural accompaniment of the capital accumulation process.³

The configuration of the finance sector in Britain, Canada and the United States, and the distribution of assets within it, is a product of the particular historical development of each national capitalism (the social formation) and the relationship of the finance sector to the industrialization process.⁴ In Canada the locus of economic power in the finance sector resides in four private financial intermediaries: chartered banks, trustee pension funds (individual and corporate), life insurance companies and trust companies. These four institutions accounted for nearly 83 per cent of the total assets of private financial intermediaries in Canada in 1979 (Table 8.4).

TABLE 8.4
ASSETS OF MAJOR
CANADIAN FINANCIAL INTERMEDIARIES,
BOOK VALUE, 1979

| Financial Intermediary | Assets (\$ Billion) | % Distribution of Assets | |
|---------------------------------------|---------------------------|---------------------------------|---|
| | | Total Private Intermediaries | Total Private Non-Bank Intermediaries |
| Chartered Banks | 210.2 | 52.7 | - |
| Trustee Pension Funds | 43.2 (32.4 ³) | 10.9 (8.1 ³) | 22.9 (17.1 ³) |
| Life Insurance Companies ¹ | 41.4 ² | 10.4 | 21.9 |
| Trust Companies | 33.4 (44.2 ⁴) | 8.4 (11.1 ⁴) | 17.7 (23.4 ⁴) |
| Local and Central Credit Unions | 32.5 | 8.2 | 17.2 |
| Construction Loan Companies | 14.1 | 3.5 | 7.5 |
| Mortgage Loan Companies | 12.3 | 3.1 | 6.5 |
| Property and Casualty Companies | 10.4 | 2.6 | 5.5 |
| Investment Companies ⁵ | 1.3 | 0.3 | 0.7 |
| Total Assets: | | | |
| All Financial Intermediaries | 398.8 | | |
| Non-bank Financial Intermediaries | 188.6 | | |

- Notes: 1. Canadian business only.
2. Including life and accident and sickness policies (\$2.3 billion) plus the segregated (pension) funds (\$5.5 billion) of life firms.
3. Excluding corporate trustee pension fund assets under management by trust companies.
4. To place the assets of trust companies on a comparable basis with life companies requires that all assets under their control be included, as in the case of life insurance company assets (S&A, segregated funds and life policies). Nearly 25 per cent of all trustee pension fund assets, or \$10.8 billion, are controlled by trust companies and are included here. The total asset base of trust companies is therefore larger than that of life insurance companies.
5. Open and closed investment funds and mutual funds.

Source: Retabulated and calculated from Statistics Canada, Financial Institutions, Financial Statistics, Fourth Quarter 1979 (Ottawa: Statistics Canada, 1979).

Private financial intermediaries in Canada had nearly \$400 billion dollars in assets at their disposal, while non-bank financial intermediaries, including pension funds, had assets worth \$190 billion under their control in 1979. The assets of trustee pension plans (private and public sector) represented over \$43 billion. To this must be added the \$12 billion of assets associated with insured pension plans and the segregated funds of life insurance companies. The total assets of the entire private pension system in Canada were therefore in the order of \$54.4 billion in 1979. The assets of all private pension plans combined with those of the public pension system (C/QPP) now stand at nearly \$92 billion, or in excess of 30 per cent of the GNP.

Private pension funds in Canada, historically dwarfed by the chartered banks and life insurance companies, are now an independent power in financial markets as a result of the growth and concentration of pension fund assets. Pension funds today are the second largest institutional investor, having for the first time superceded the assets of life insurance companies in 1979. Pension funds in Canada are now the largest private non-bank financial intermediary accounting for nearly 25 per cent of all non-bank assets. Historically "life companies and banks together" were, according to Clement, "the nub not only of Canadian finance but of Canadian capitalism."⁵ Private pension funds must now clearly be incorporated into such a formulation under conditions of advanced capitalism.

The growth and concentration of pension fund capital has correspondingly affected the configuration of the finance sector in the U.S., Britain and Canada in the post-war period. The relative and absolute increase in pension fund assets, and their concentration into a new growth center, has simultaneously resulted in a redistribution of assets under the control of and the economic power exercised by various financial

institutions. The transfiguration of the finance sector, associated with the growth of private pension fund assets, is outlined in Table 8.5 which reports pension assets as a proportion of total and non-bank financial intermediary assets. In the U.S. and Canada, pension fund assets have nearly tripled as a proportion of total and non-bank financial institution assets in the post-war period.

TABLE 8.5
PENSION FUND ASSETS
AS A PERCENTAGE OF ALL FINANCIAL INTERMEDIARY
AND NON-BANK FINANCIAL INTERMEDIARY ASSETS,
CANADA, U.S., AND U.K., POST-WAR PERIOD

| <u>Sector</u> | <u>Canada</u> | | <u>U.S.</u> | | <u>U.K.</u> | |
|------------------------------|---------------|-------------|-------------|-------------|-------------|-------------|
| | <u>1946</u> | <u>1979</u> | <u>1950</u> | <u>1980</u> | <u>1963</u> | <u>1981</u> |
| All Financial Intermediaries | 3.8 | 10.8 | 4.1 | 12.9 | 19.1 | 14.6 |
| Non-bank intermediaries | 9.2 | 22.9 | 8.4 | 20.4 | 27.2 | 33.7 |

Sources: Calculated from Appendix K1-3.

The growth of pension fund capital in recent years has resulted in pension funds exhibiting greater economic power and a more prominent position within the finance sector. In the immediate post-war period pension funds in the the U.S. were the fifth largest financial intermediary, and in Britain the third largest. By 1980 pension funds ranked as the third largest institutional investor in the U.S. and were the second largest in the U.K. Pension funds ranked as the fourth largest non-bank financial intermediary in the U.S. and were the second largest in Britain after the war. By 1980 pension funds had become the second and first ranked non-bank financial intermediary in the U.S. and Britain respectively. In Canada pension funds are now the second largest institutional investor and the largest non-bank financial intermediary. The change in the configuration of the finance sector in Canada, Britain and the U.S. as a consequence of the growth and concentration of pension fund capital, and the reallocation of assets between financial institutions in the post-war period is reported in Appendix K1-3.

The institutionalization of financial markets and investment in advanced capitalist economies is a natural concomitant of the substantial growth and considerable concentration of pension fund capital. As a result, pension funds have assumed a strategic position within the finance sector and the economy. The concentration of pension fund assets has been accompanied by the centralization of pension fund capital under the control of a few financial institutions.

8.5 Centralization of Pension Fund Capital

The centralization of capital, as distinct from the concentration of capital, refers to the combining or amalgamation of capitals which are already in existence.⁶ This "presupposes a change in the distribution of capital" because as "capital grows in one place to a huge mass in a single hand it has in another place been lost by many."⁷ The centralization of capital in the finance sector, or the "credit system" to use Marx's term, operates in a different manner than in the industrial sphere of production. As Marx used the term, the "credit system" includes not only banks, but the entire financial system of investment houses, security markets, and so on.⁸ Under conditions of contemporary capitalism, it is appropriate to include the private pension system as part of the "credit system". The finance sector becomes a "formidable weapon in the competitive struggle"⁹ and is able to affect "the amalgamation of ... capitals which already exist or are in the process of formation."¹⁰ The centralization of capital within the finance sector therefore refers to the general process whereby fewer capitalists or financial institutions own or control a greater quantity of capital.

The centralization of capital as it relates to the operation of the private pension system is relevant in at least three ways. In the first instance, "the fact that loaned [or invested] capital yields interest whether actually employed as capital or not...lends strength to the idea that this

form of [money] capital exists independently."¹¹ That is, the assets and investment activities of financial institutions such as pension funds are an independent sphere of economic power which augment capital accumulation in the industrial sector. Second, the centralization of capital reduces competition with a resultant tendency towards monopolistic market behaviour. Third, and perhaps most important, the centralization of capital leads to the socialization and rationalization of the labour process within a capitalist political economy.¹²

Pension funds are both an integral part of the finance sector and a separate "region", or industry, within it. The centralization of pension fund capital is an important public policy issue because pension funds are "a force making for greater centralization of [economic] decision-making power"¹³ among a relatively few financial institutions which control and direct the pension savings of workers into investment. "It is power concentrated in relatively few hands," according to Titmuss, "working at the apex of a handful of giant bureaucracies... and accountable, in practice, to virtually no one."¹⁴

8.5.1 The Morphology of Pension Capital. The private pension system in the U.K., Canada and the U.S. in the post-war era has exhibited a marked tendency towards the centralization of pension fund capital. The transnational data presented in Table 8.6 indicate that the size of pension funds is closely related to the centralization of pension assets. The top 10 funds in each of these countries account for 25 to 30 per cent of total pension fund assets, while the 20 largest pension funds represent nearly 40 per cent of the total assets of the private pension system. These data confirm that there is both a concentration and centralization of pension capital in a few large pension funds.

A transnational comparison of the distribution of pension assets by funding agency and sector is presented in Table 8.7. The vast majority of

TABLE 8.6
CENTRALIZATION AND CONCENTRATION
OF PENSION ASSETS IN LARGE PENSION FUNDS,
U.K., CANADA, AND U.S., 1978-1983

| Country | % of Total Pension Fund Assets Controlled by | | |
|---------------------|--|--------------|-------------------|
| | Top 10 Funds | Top 20 Funds | Top 200 Funds |
| U.K. ¹ | 30.8 | 40.3 | 55.0 |
| Canada ² | 24.4 | 33.2 | 88.9 ⁴ |
| U.S. ³ | 24.1 | 42.4 | 75.2 |

Notes: 1. 1978.
2. 1980.
3. 1983.
4. Largest 397 pension funds with 1,000 or more members.

Sources: Calculated from the National Association of Pension Fund survey and CSO, Financial Statistics (London: HMSO, 1980); "Top 200 pension funds/sponsors", Pensions & Investment Age, January 23, 1984, pp. 16-17; "Canada's Top 20 Pension Funds", Benefits Canada, Vol. 6 (September/October 1982), p. 45 and Statistics Canada, Trusteed Pension Plan Financial Statistics, 1980 (Ottawa: Minister of Supply and Services, 1982), text Table VIII, p. 25.

occupational pension plan assets are in non-insured (trusteed) plans administered by bank trust departments in the U.S. and merchant banks in Britain. In Canada most pension fund assets are administered under individual and corporate trust arrangements.

In Canada the organization of the private pension industry and the locus of control over pension fund capital is concentrated and centralized in three institutions: the individual trusteed (non-insured) pension fund, the trust company or corporate trustee, and the segregated (pension) funds of life insurance companies. "The trusteed arrangement," according to Statistics Canada, "represents the major repository for pension funds." Within the category of "trusteed" pension plans it is necessary to differentiate between an individual trustee (a natural person or persons acting on behalf of a corporate entity) and corporate trustee arrangements administered under the auspices of a trust company.¹⁶ Table 8.8 indicates that trusteed pension plans (individual and corporate) account for 77 per cent of all pension fund assets (excluding occupational pensions paid from government consolidated revenue). The majority of pension assets in

TABLE 8.7

DISTRIBUTION OF PENSION FUND ASSETS
BY SECTOR AND FUNDING AGENCY, BILLION NATIONAL CURRENCY UNITS,
U.S., CANADA, AND BRITAIN, 1960-1980

| Sector and Funding Agency | % Distribution of Assets | | | | | | | |
|------------------------------|--------------------------|--------------------|------------------|-------------------|------------------|-------------------|--------|-------|
| | U.S. | | Canada | | U.K. | | Canada | |
| | 1960 | 1980 | 1960 | 1980 | 1960 | 1980 | 1960 | 1980 |
| Private Funds | 57.0 | 452.6 | 3.4 | 39.5 | 2.4 | 59.8 | 70.8 | 60.3 |
| Insured | 18.9 | 165.8 | 1.2 ² | 13.8 ² | 0.6 ⁴ | 30.3 ⁴ | 25.0 | 21.1 |
| Non-insured (Trusteed) | 38.1 | 286.8 | 2.2 | 25.7 | 1.7 | 29.5 | 45.8 | 39.2 |
| Public Funds | 33.8 ¹ | 274.5 ¹ | 1.4 ³ | 25.0 ³ | 0.9 ⁵ | 25.2 ⁵ | 29.2 | 39.7 |
| Total, All Types | 90.8 | 727.1 | 4.8 | 65.5 | 3.3(E) | 85.0(E) | 100.0 | 100.0 |
| | | | | | | | 100.0 | 100.0 |
| | | | | | | | 27.3 | 29.6 |
| | | | | | | | 100.0 | 100.0 |

Notes: 1. Federal, state and local government retirement funds.
 2. Insured plans plus segregated funds of life insurance companies.
 3. Trusteed pension plans only, excluding consolidated revenue plans of the federal and provincial governments.
 4. Estimated at one-third the contribution cash-flow of non-insured schemes.
 5. Local Authority and Other Public Sector Plans.

Sources: U.S. Department of Commerce, Statistical Abstract of the United States, 1982-83 (Washington, D.C.: GPO, 1982), Series 537, p. 330;
 Statistics Canada, Trusteed Pension Plans Financial Statistics, 1980 (Ottawa: Minister of Supply and Services, 1982), Text Table
 VI, p. 19; Bank of Canada, Statistical Summary (Ottawa: n.p., various dates) and CSO, Financial Statistics (London: HMSO, various
 years).

TABLE 8.8

PENSION FUND ASSETS,
BY FUNDING AGENCY, BOOK VALUE, CANADA, 1979

| <u>Funding Agency</u> | <u>Value of Pension Fund Assets</u> | |
|-----------------------------------|---|-------------------|
| | <u>\$ Million</u> | <u>% of Total</u> |
| Trusteed | 43,203 | 77.1 |
| Individual trustee | 26,371 | 47.1 |
| Corporate trustee/trust companies | 13,764 | 24.6 |
| Other | 3,068 | 5.5 |
| Insurance Companies | 12,239 | 21.8 |
| Government Annuities | 585 | 1.1 |
| Total | 56,027 | 100.0 |

Source: Calculated from Statistics Canada, Trusteed Pension Plans Financial Statistics, 1979 (Ottawa: Minister of Supply and Services, 1981), Text Table I, p. 7 and Text Table III, p. 9.

Canada are held by individual trustees, rather than by trust companies (corporate trustees). Specifically, 47 per cent of total pension fund assets were held by individual trustees, 25 per cent by trust companies and 22 per cent held through life insurance companies. Each of these pension fund arrangements in Canada exhibits a significant concentration and centralization of pension capital as a result of their being under the control of a dominant financial institution. These arrangements are examined in greater detail here.

8.5.2 Individual Trusteed Pension Funds. Large individual trusteed pension funds have witnessed a marked increase in the concentration and centralization of pension fund assets under their control. Over the past two decades the level of average assets per large individual trusteed pension fund in Canada have increased by a factor of 4 in current dollars and have nearly doubled in constant dollars (Table 8.9). This reflects the considerable growth of pension fund assets in the post-war period and the distribution and concentration of pension plan coverage by sector and industry (Chapter 4).

TABLE 8.9

**CONCENTRATION AND CENTRALIZATION OF INDIVIDUAL TRUSTEED
PENSION FUND ASSETS, \$ BILLION,
CANADA, 1960, 1970, AND 1979**

| Year | Total Assets | Number of Large Pension Funds ¹ | Average Assets Per Large Pension Fund (Current \$) | Consumer Price Index Deflator (1960 = 100) | Average Assets Per Large Pension Fund (Constant \$) | Percentage Change In Average Assets Per Large Pension Fund In Constant Dollars |
|------|--------------|---|--|---|---|--|
| 1960 | \$ 3,582,594 | 143 | \$ 25,053 | 100.0 | \$25,053 | - |
| 1970 | 11,059,141 | 257 | 43,032 | 130.8 | 29,779 | 18.9 |
| 1979 | 43,203,388 | 398 | 108,551 | 257.3 | 69,008 | 175.5 |

Note: 1. A large pension fund is defined as one having 1,000 or more members.

Source: Calculated from Statistics Canada, Trusted Pension Plans Financial Statistics, 1979 (Ottawa: Minister of Supply and Services, 1981), Table VI, pp. 20-21.

The distribution of pension fund assets clearly indicates the high degree of concentration and centralization of capital held by the largest funds and, in particular, individual trustee pension funds. This suggests that a considerable amount of independent power resides with large individual trustee pension funds. This economic power is closely related to and reinforced by the type of pension fund investment management. The investment management of large or individual trustee pension funds is generally handled internally, that is, managed in-house by the plan sponsor. It is the small and medium sized pension funds which are managed externally by various financial institutions. Large, internally managed pension funds are therefore under the direct control of the corporate plan sponsor.

The centralization of pension assets by type of investment management for Canada's largest pension funds is reported in Table 8.10. This information indicates that Canada's ten largest pension funds are wholly or largely managed in-house. Specifically, 92 per cent of the total assets of the ten top pension funds in Canada are self-managed, including such major private and public sector corporations as CN Railways, Bell Canada, General Motors and Ontario Hydro. In Britain, nearly 80 per cent

TABLE 8.10
LARGEST CANADIAN PENSION FUNDS,
BY TYPE OF INVESTMENT MANAGEMENT, MARKET VALUE, 1980

| <u>Pension Fund</u> | <u>Assets (\$ Million)</u> | <u>Type of Fund Management</u> |
|---|--------------------------------|------------------------------------|
| 1. Ontario Municipal Employees Retirement System | 2,508 ¹ | 90% in-house |
| 2. Canadian National Railways | 2,500 | 94% in-house |
| 3. Canadian Pacific | 1,350 | 87% in-house |
| 4. Bell Canada | 1,300 | In-house |
| 5. Hospitals of Ontario Pension Fund | 1,100 | In-house |
| 6. Ontario Hydro | 1,100 | In-house |
| 7. Air Canada | 833 | 85% in-house |
| 8. General Motors of Canada | 810 | 85% in-house |
| 9. Imperial Oil | 588 | 65% in-house |
| 10. Hydro Quebec | 542 | In-house |

Notes: 1. Including \$1.3 billion in non-marketable securities.

Source: Retabulated from "Canada's Top 20 Pension Funds", Benefits Canada, Vol. 6 (September/October 1982), p. 45.

of the total assets of the ten largest pension funds are managed in-house, including the Post Office, ICI and the Imperial Group (Table 8.11). In the United States in recent years there has been an accelerating trend towards in-house investment management, particularly among the largest corporate pension funds including General Electric, DuPont, U.S. Steel and Exxon.¹⁷ The largest self-managed funds are equally distributed between the private and public sectors.

TABLE 8.11
LARGEST U.K. PENSION FUNDS,
BY TYPE OF FUND MANAGEMENT, BOOK VALUE, 1980

| <u>Pension Fund</u> | <u>Capital Value (£m)</u> | <u>Type of Fund Management</u> |
|------------------------|-------------------------------|------------------------------------|
| 1. Post Office | 2,600 (1,950 ¹) | 75% in-house |
| 2. National Coal Board | 2,100 | In-house |
| 3. British Rail | 1,800 (450 ¹) | 25% in-house |
| 4. Electricity Supply | 1,500 | In-house |
| 5. British Steel | 1,000 | In-house |
| 6. ICI | 950 | In-house |
| 7. Barclays Bank | 700 | External |
| 8. British Gas | 655 | In-house |
| 9. Imperial Group | 639 | In-house |
| 10. BP | 627 | In-house |

Note: 1. Assets internally managed.

Sources: "Pension Funds and their Advisers 1980", Department of Employment Gazette and the National Association of Pension Funds.

The concentration and centralization of pension assets in self-managed funds suggests that the largest pension funds are managed in accordance with the "profit center theory" of pension fund management.¹⁸ The pension fund is "one of the most important... assets in the company," according to one fund manager, and "should receive the same intensity of consideration that any other aspect of the business should."¹⁹ Large individual trustee pension plans which are internally managed therefore are an integral part of corporate profit maximization behaviour. This results in the further centralization of economic decision-making and concentration of power in the corporate sector.

8.5.3 Trust Companies (Corporate Trustees). The idea of the trust was British in origin and was subsequently introduced into the United States and the British Commonwealth, including Canada, in the early nineteenth century. The concept of the corporate trustee as it has evolved, however, is essentially a North American innovation.²⁰

The superiority of trust companies over individual trustees or executors is a result of their large volume of business, financial expertise, and their permanent corporate status. According to Neufeld

the unique contribution to the [Canadian] financial system of ... trust companies is their provision of executor, administrator and trust services. They are unique among the financial institutions in this respect because banks, life insurance companies and loan companies are not permitted to act in a fiduciary capacity ... The decisive change occurred when the trust companies were permitted to accept funds ... Trust companies borrowing and lending activities [are] little different ... [than] the savings business of the chartered banks.²¹

The business activities of Canadian trust companies fall into two distinct categories - financial intermediary or "banking" and fiduciary functions. When a trust company is acting in a "banking" capacity it is a principal in the transaction, such as taking deposits from the public. The fiduciary (custodial) or trustee functions are unique to trust companies in Canada. In their fiduciary capacity, trust companies serve as administrators of estates, trusts and agencies. In the role of administrator, trust companies do not obtain ownership of the assets under their administration but, rather, act with vary degrees of authority as the trustee, or custodian of the assets under administration. The trust document defines the powers and discretion of the trust manager.²² "The trust company," according to Baum, "is peculiar to Canada. It functions as a corporate fiduciary, administering trusts of all kinds, including funds for investment", such as pension funds.²³ The custodial or trustee function coupled with deposit-taking make Canadian trust companies near-banks.

Funds controlled by trust companies in Canada are divided into three categories: company funds, guaranteed trust accounts, and estate, trust and agency (ETA) accounts. Company ("own") funds or assets are the basic capitilization of the trust company. Monies on deposit are the guaranteed funds and are secured by company funds. All other funds administered by a trust company may be characterized as estate, trust or agency accounts (ETAs). Accordingly,

money managed by a trust company is divided in separate accounts or trusts. Many of these are set for a specific client. For example, the assets of an estate are usually managed as a separate account or trust. Similarly,²⁴ a large pension fund may be so managed.

Small accounts or pension plans are placed in pooled funds, while large ones are separately managed and given special attention. In recent years, as shall be demonstrated, pension funds have become the most important source of funds to be administered by trust companies.

The institutional arrangements with respect to exercising trust functions is quite different in the United States and Britain as compared with Canada. "Canadian tradition [and legislation] is firmly opposed to a bank being in the trust or fiduciary business because of possible conflicts of interest."²⁵ Trustees hold huge portfolios and "have enormous powers to choose what companies to invest in, how to vote their shares, and whether to help finance companies by loaning money or buying new [stock] issues."²⁶ If trust companies also did the banking for these same companies, it would give them even more economic power. In Britain and the United States the trustee function for pension plans is performed by banks and individual trustees.

In order to determine the concentration and centralization of trust company assets and the associated economic and social power within the unique structure of the Canadian financial system, it is necessary to ascertain the total assets under their control as distinct from corporate

assets ("company funds"). While trust companies argue that the corpus of the trust is not theirs and that they have no proprietary interest in such assets, Baum concluded that

this rationale complicates measuring the size and power of trust companies... When the strength of a bank, life insurance company, or mutual fund is considered, the deposits on hand, the sum of the policies written, or the net asset value, rather than capitalization, is the measure of institutional strength... In view of this, discounting the important of estate, trust, and agency funds is improper, for they assume the same importance as bank deposits [or] insurance policies. The [ETA] funds give the corporate fiduciaries considerable investment powers.²⁷

Total assets under the control of trust companies, therefore, is the relevant measure of their institutional strength and power.

In Canada the assets, including pension funds, administered and managed by trust companies are highly concentrated and centralized among a few firms. This is reported in Table 8.12. The two largest trust companies account for nearly 50 per cent of total assets and the top five companies control nearly 80 per cent of the total assets of all trust companies.

Trust companies administering corporate trustee arrangements for pension plans now represent nearly 25 per cent of the total assets of the private pension system (Table 8.8). Of particular importance to trust companies are their Estate, Trust and Agency (ETA) accounts or funds, which include monies administered under individual and corporate custodial and trustee arrangements, including pension funds. Two trust companies account for 54 per cent of all ETAs, while the top five companies control nearly 85 per cent of total ETA account assets, including pension funds (Table 8.12).

Pension fund assets under administration have become an increasingly important component of ETA accounts and the overall asset structure of trust companies. Table 8.13 indicates that for the four largest

TABLE 8.12

**CONCENTRATION AND CENTRALIZATION OF TRUST COMPANY ASSETS,
MAJOR COMPANIES ON AN UNCONSOLIDATED BASIS,
BOOK VALUE, \$ BILLION, CANADA, 1982**

| Company | Company Funds | + | Guaranteed Trust Funds | + | Estate, Trust and Agency Funds Under Administration ² | Total Assets Controlled | |
|--|---------------|---|---------------------------|---|--|----------------------------|-------|
| | | | | | | \$ | % |
| Royal Trustco | 298,748 | | 5,268,048 | | 34,552,109 | 40,118,905 | 35.9 |
| Canada Trustco | 159,771 | | 3,075,110 | | 10,942,009 | 14,176,890 | 12.7 |
| Montreal Trustco | 42,564 | | 974,997 | | 11,629,481 | 12,647,042 | 11.3 |
| National Trust | 129,192 | | 2,662,905 | | 9,885,204 | 12,677,301 | 11.4 |
| Canada Permanent | 239,739 | | 3,539,927 | | 4,614,892 | 8,394,558 | 7.5 |
| Total: 5 major companies: | 870,014 | | 15,520,987 | | 71,623,695 | 88,014,696 | 78.8 |
| Total: All federally chartered companies ³ : | 1,426,617 | | 24,783,918 | | 85,477,599 | 111,688,134 | 100.0 |

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Notes: 1. There is a significant difference in the reporting procedures used by the federal Superintendent of Insurance and the respective trust company annual reports. Trust company annual reports are on a consolidated balance sheet basis, whereas the data reported by the Superintendent of Insurance is on an unconsolidated basis and is only for the federal jurisdiction. The information reported by the Superintendent of Insurance is thus an understatement of an estimated forty per cent of the actual assets under administration by trust companies. Furthermore, this results in a considerable distortion in terms of rank ordering by total assets. These problems become apparent with respect to Royal Trustco (federally chartered), Canada's largest trust company, which does not report the assets of its Quebec operation for Royal Trust (provincially chartered) in the Superintendent's report. The same situation exists in respect of Montreal Trustco, the third largest trust company. Canada Trustco and Canada Permanent, subsidiaries of their respective mortgage holding companies, are reported on an unconsolidated basis as well. In addition, the consolidated annual reports of the trust companies differ widely with respect to their accounting practices, definitions of ETAs, whether ETAs are or are not included in the balance sheet, and aggregate accounting categories which must often be "broken-out" for the purpose of analysis. Therefore, in the interest of accounting consistency and clarity the federal Superintendent of Insurance Report is used here, except for Royal Trust as reported in table 8.13, despite the fact that it understates total assets under administration by federally chartered trust companies.

2. Estate, Trust and Agency (ETA) funds refer to those monies under administration by the trust company in its custodial or trustee capacity, including pension fund assets.

3. Thirty-two federally chartered companies, and National Trust which is provincially chartered in Ontario.

Sources: Calculated from the Report of the Superintendent of Insurance for Canada for the year-ended December 31, 1982. Trust and Loan Companies (Hull: Minister of Supply and Services, 1983), p. vi and pp. 17B-23B, pp. 25B-31B, pp. 125B-131B and pp. 186B-191B.

TABLE 8.13

TRUST COMPANY
PENSION ASSETS UNDER ADMINISTRATION
IN RELATION TO COMPANY ASSET STRUCTURE,
BOOK VALUE, \$ BILLION, CANADA, 1982

| Company | Pension Fund Assets Under Administration ¹ | Estate, Trust and Agency Funds Under Administration ² | Total Assets Controlled ³ | Pension Funds as a % of | |
|------------------|---|---|---|---|----------------------------|
| | | | | Estate, Trust and Agency Funds Under Administration | Total Assets Controlled |
| Royal Trustco | 19,681,513 | 34,552,109 ⁴ | 40,118,905 ⁵ | 56.9 | 49.1 |
| Canada Trustco | 6,731,370 | 10,942,009 | 14,176,890 | 61.2 | 47.5 |
| Montreal Trustco | 6,335,150 | 11,629,481 | 12,647,042 | 54.5 | 50.1 |
| National Trust | 6,100,000 | 9,885,204 | 12,677,301 | 61.7 | 48.1 |
| Canada Permanent | 556,000 | 4,614,892 | 8,394,558 | 12.1 | 6.6 |

- Notes: 1. Assets for federally chartered companies only, except National Trust which is Ontario registered.
2. Estate, Trust and Agency Funds Under Administration ordinarily include Pension Fund Assets Under Administration, except for Royal Trustco as noted in Table 8.12.
3. Company Funds plus Guaranteed Trust Funds plus Estate, Trust and Agency Funds Under Administration (including pension assets), Table 8.12, op. cit.
4. Royal Trustco reports pension assets and ETAs Under Administration separately. They have been aggregated here, including \$19.7 billion in pension assets, in the interest of reporting consistency.
5. Including Company Funds plus Guaranteed Trust Funds plus ETAs plus Pension Fund Assets Under Administration, as cited in notes 2 and 3 above.

Sources: Calculated from the Report of The Superintendent of Insurance for Canada for the year-ended December 31, 1982. Trust and Loan Companies (Hull: Minister of Supply and Services, 1983) and Table 8.12, op. cit. Pension fund assets under administration provided courtesy of the respective trust companies.

trust companies in Canada, pension fund assets represent on average nearly 60 per cent of total ETA accounts. More significantly, pension funds now represent nearly 50 per cent of the total assets controlled by major trust companies. Pension funds are therefore vital to the economic survival of one of Canada's major financial institutions.

8.5.4 Life Insurance Segregated Funds. Life insurance companies have historically been Canada's second largest financial institution, behind the chartered banks, and have exerted considerable influence on capital markets.²⁵ The structure of the life insurance industry is characterized by significant market concentration and is dominated by the five largest companies.

The centralization and concentration of pension fund assets evidenced by individual trustee pension funds and the pension funds managed by trust companies (corporate trustees) is similarly exhibited by the insured pension plans and segregated funds administered by life insurance companies. Pension plans using this funding medium tend to be the smaller ones and in total account for only 13 per cent of all occupational pension plan members. As a result of competition from trustee pension arrangements, the pension assets held by the life insurance industry in Canada have declined from 46 to 22 per cent of total pension fund assets between 1962 and 1980.²⁶

Insurance companies offer four basic underwriting agencies for the purpose of occupational pension plans: the individual annuity contract, group annuity contracts, deposit administration and segregated funds.²⁷ Segregated pension funds, that is, monies which are separated from the general fund of life insurance companies, were established after World War II in order to circumvent the statutory restrictions placed on insurance company equity investment so as to make them competitive with trust companies for pension business. Segregated funds are now the largest

funding medium sponsored by life insurance companies with respect to occupational pension plans and account for one-third of all insured pension plan members.²⁸

Table 8.14 indicates the concentration and centralization of life insurance company segregated pension fund assets. The four largest funds account for over 50 per cent of all segregated pension fund assets. The top ten segregated pension funds held nearly 85 per cent of the total pension assets controlled by insurance companies having segregated funds.

TABLE 8.14
CONCENTRATION AND CENTRALIZATION OF
LIFE INSURANCE COMPANY
SEGREGATED PENSION FUNDS,
MARKET VALUE, MILLION \$, CANADA, 1978

| <u>Company</u> | <u>Assets of Segregated Pension Funds¹</u> | <u>% of Total Funds</u> |
|--|---|-----------------------------|
| Sun Life | 687,337,117 | 14.9 |
| Standard Life | 613,362,296 | 13.4 |
| Confederation Life | 516,446,925 | 11.3 |
| Canada Life | 512,979,308 | 11.2 |
| Great-West Life | 350,785,970 | 7.6 |
| Manufacturers Life | 344,115,760 | 7.5 |
| North American Life | 313,786,607 | 6.8 |
| Mutual Life | 203,551,675 | 4.4 |
| Excelsior Life | 190,825,336 | 4.2 |
| Imperial Life | 125,704,476 | 2.7 |
| Total: Top 10 companies | 3,858,895,470 | 84.1 |
| Total: All Segregated Funds ² | 4,591,317,532 | 100.0 |

Notes: 1. Assets held in Canada.
2. There are 383 federally registered life companies operating in Canada: 146 Canadian, 35 British and 202 foreign, however, only 67 have segregated funds.

Source: Retabulated and calculated from the Report of the Superintendent of Insurance for Canada 1978, Annual Statements - Life Insurance Companies and Fraternal Benefit Societies, Vol. III (Hull: Minister of Supply and Services, 1980), pp. 35A-36A and Table II (2), pp. 20c-22c.

The information presented here indicates that the private pension system and the component parts of the private pension industry in Canada -

individual trustee pension funds, trust companies (corporate trustees) and life insurance company segregated funds - are characterized by a significant concentration and centralization of pension capital among a few large pension funds and dominant financial institutions. The institutional strength and economic power of the private pension system is a consequence of the significant growth in pension fund assets as a concomitant of the control over pension saving and investment by institutional investors, and is reinforced by the accelerated tendency towards the concentration and centralization of pension capital under the control of dominant financial institutions. The structure and economic power of the private pension system, as an organic component of the broader finance sector, is reinforced by and a reflection of the more general propensity towards the centralization and concentration of financial capital.

8.6 Concentration and Centralization of Pension and Financial Capital

The tendency towards the concentration and centralization of pension fund capital parallels and corresponds to similar tendencies within the industrial and finance sectors of a capitalist economy. Each of the financial intermediaries and institutional investors within the broader finance sector in Canada (Table 8.4) is marked by a concentration and centralization of assets.

The concentration and centralization of finance sector assets in Canada by type of financial institution is reported in Table 8.15. This information indicates the extent to which there is a concentration of financial capital and the centralization of economic decision-making by a relatively few institutions within the finance sector. Within each financial sector the five largest institutions control the mammoth proportion of assets.

What is significant is that the concentration and centralization of pension fund capital in Canada corresponds to the centralization and concentration of capital in general within the finance sector. This is a

TABLE 8.15

SUMMARY TABLE OF
CONCENTRATION AND CENTRALIZATION
OF FINANCE SECTOR ASSETS,
BY MAJOR FINANCIAL INTERMEDIARY,
CANADA, 1978-1982

| <u>Financial Sector and Institution</u> | <u>No. of Top Ranking Institutions/Funds</u> | <u>Percentage of Total Assets Controlled Within Each Financial Sector or by Funding Agency</u> |
|---|--|--|
| Chartered Banks | 5 | 91 |
| Trust Companies | 5 | 67 |
| Life Insurance Companies | 5 | 59 ² |
| Pension Funds | 20 | 33 |
| Individual Trustees ¹ | 10 | 24 |
| Corporate Trustees | 5 | 74 |
| Segregated Funds | 5 | 58 |

Notes: 1. Internally managed pension funds.
2. Including segregated funds.

Sources: Calculated from Walter Stewart, Towers of Gold-Feet of Clay: The Canadian Banks (Toronto: Totem Books, 1982), Appendix I, Table 1, p. 270; Report of the Superintendent of Insurance for Canada, Abstract of Statements of Insurance Companies in Canada, Vol. I (Hull: Minister of Supply and Services, 1979), pp. 44C-45C; Report of the Superintendent of Insurance for Canada for the year-ended December 31, 1982, Trust and Loan Companies (Hull: Minister of Supply and Services, 1983); and Tables 8.6, 8.11, 8.12 and 8.13, op. cit.

consequence of each major financial institution, with the exception of individually trusteeed pension funds, sponsoring a funding agency or medium for the administration and management of pension fund assets. For example, while the 5 largest trust companies control nearly 70 per cent of total assets within that financial sector, the 5 top trust companies administer approximately 75 per cent of the total assets of corporate trusteeed pension funds. Similarly, the top 5 insurance companies control nearly 60 per cent of the total assets of the life insurance industry, while the 5 largest insurance company segregated pension funds account for 60 per cent of total segregated fund assets.

A similar situation prevails in the United States and Britain. In the U.K., for example, the financial system is characterized by a considerable concentration and centralization of capital. Merchant banks control two-thirds of contractual savings, such as pension savings, and about

20 nationally based institutions in turn control 70 per cent of this amount.³² Specifically, 10 banks and 2 brokers each controlled pension assets worth £500 million or more.³³

These trends have a number of implications. First, because the concentration and centralization of pension fund assets by funding agency mirrors the more general tendency towards the centralization and concentration of financial capital and, in turn, corresponds to the organization of the finance sector, it suggests that pension capital should be viewed as being an integral part of financial capital under conditions of advanced capitalism. Consequently, pension capital and the private pension "industry" is subordinated to and under the "strategic control" of related dominant financial institutions. Second, the absolute and relative growth of pension funds assets in the post-war period has increased the concentration of capital and economic power vested in the finance sector. This has clear implications with respect to economic policy. Third, the growth of pension fund assets poses the fundamental issue of ownership and control over pension capital.

8.7 The Control and Investment of Pension Capital

Pension funds are the "registered" owners of the assets held on behalf of "beneficial" owners, that is, pension plan members. As such, pension fund trustees have no proprietary interest in the assets of the plan, but rather are responsible for the administration of the pension plan and the "prudent" investment of the fund. In Canada trustee pension funds are administered by corporate trustees (trust companies) or individual trustees. Traditionally, the trust company or the individual trustee assumed all the fiduciary (custodial) responsibilities, including the investment of the funds; that is, the trustee was responsible for the daily administration of the pension plan and the investment management of the fund. In recent years, however, these arrangements have undergone a significant change. Many

pension plan sponsors, usually to maximize the return on investment, and yet to ensure the security of the funds, have separated pension plan administration from investment management.³⁴

It is necessary in this regard to differentiate between the daily administration of the pension plan and the investment management of the pension fund. The fundamental distinction between pension plan administration and pension fund investment management explains why the locus of control over pension fund capital generally resides with dominant financial institutions, regardless of the formal ownership of assets, and reinforces the concentration and centralization of capital within the finance sector. The investment management of pension fund assets by major financial institutions further suggests that while the private pension industry is an integral part of the finance sector it is subordinated to the general interests of financial capital. That is, pension capital is under the broad strategic control of dominant financial institutions and their investment maximization behaviour.

The ultimate criterion with respect to determining whether pension funds exercise ownership or control over the assets held by them turns on who is responsible for the investment of the funds. In this regard individual and corporate (trust company) trustees may in one instance be responsible for both the daily administration of the pension plan and the investment management of the fund. Alternatively, trustees may be responsible for the administration of the plan but may choose to delegate, that is, sub-contract, the investment management of the pension fund to an outside agency or financial institution. In the case of individual trustee pension plans, as a result of their large size and concentration of assets (Table 8.9), plan administration and fund management are both usually retained in-house by the plan sponsor. Similarly, corporate trustees may, depending upon circumstance, be responsible for both plan administration

and fund management. Increasingly in the case of corporate trustees, however, the trust company is retained by the plan sponsor to act solely in a custodial capacity, that is, to carry out plan administration, while the fiduciary responsibility for the investment of the pension fund is delegated to one or more financial institutions or independent investment managers engaged in this type of activity.

The classification of pension funds by type of funding arrangements therefore does not necessarily indicate where or how the fund is managed in terms of investment decision-making, that is, the institutional locus of control over pension capital. While some employers retain in-house (internal) investment managers on staff, others use the services of external investment counsellors or various other financial institutions to direct the investment of the pension fund. It is therefore necessary to determine and identify the locus of control over pension fund investment management by type of institution and the extent of decision-making which resides with those institutions with respect to investment policy. In the final analysis it is the investment management of pension fund assets which determines the control over pension capital. This is the crucial determinant with respect to exercising economic power.

Table 8.16 indicates that in Canada, Britain and the U.S. two-thirds of total pension assets are externally managed and one-third are internally managed. This means that two-thirds of total pension fund assets are managed, that is, controlled by dominant financial institutions such as banks, trust companies, life insurance companies, and to a lesser extent investment counsellors. The one-third of total pension assets internally managed are those of the large individual trustee pension plans.

The distribution of externally managed pension fund assets by type of investment manager is reported in Table 8.17. The investment management and control over pension assets primarily resides with trust

TABLE 8.16

CONTROL OF PENSION ASSETS
BY TYPE OF FUND MANAGEMENT,
U.K., U.S., AND CANADA, 1975-1980

| Country | Percentage Distribution of Assets by Type of Fund Management | |
|---------------------|---|---------------------------------|
| | Internally Managed | Externally Managed ¹ |
| U.K. ² | 33 | 67 |
| U.S. ³ | 33 | 67 |
| Canada ⁴ | 33 | 67 |

Note: 1. Distributed among different types of investment managers including trust companies, life insurance companies, investment counsellors, and banks in the U.K. and U.S. Figures rounded.

2. 1975.

3. 1983.

4. 1980. The data for Canada is not totally comparable with the U.K. and U.S. as a result of incomplete information. In the case of Canada the figures cited here represent the internally managed assets of the top 20 funds, rather than as a proportion of all funds, as in the U.S. and U.K.

Sources: For the U.K. Richard Minns, Pension Funds and British Capitalism (London: Heinemann, 1980), p. 41; for the U.S. calculated from "The Top 1000 Funds", Pensions & Investment Age, Special Profiles Issue, January 23, 1984, p. 32 and for Canada, Table 8.6, op. cit.

TABLE 8.17

PERCENTAGE DISTRIBUTION
OF EXTERNALLY MANAGED PENSION FUND ASSETS
BY TYPE OF INVESTMENT MANAGER,
U.S., U.K., AND CANADA, 1978-1983

| Type of Investment Manager | U.S. ¹ | U.K. ² | Canada ³ |
|-------------------------------|-------------------|-------------------|---------------------|
| Banks | 36.0 | 49.2 | - |
| Trust Companies | - | - | 38.6 |
| Insurance Companies | 36.0 | 33.3 | 28.8 |
| Investment Counsellors | 28.0 | 15.5 | 32.6 |
| Other | - | 2.0 | - |
| Total | 100.0 | 100.0 | 100.0 |

Notes: 1. 1983, figures rounded.

2. 1978.

3. 1981.

Sources: For the U.S., Pensions & Investment Age, October 31, 1983, Graph, p. 47. Canadian data from the "Directory of Pension Fund Investment Services: Top 40 Money Managers", Benefits Canada, Vol. 5 (November/December 1981), p. 24. For Britain, retabulated and calculated from Richard Minns, Pension Funds and British Capitalism (London: Heinemann, 1980), Table 1.3, p. 31. Minns in his survey excludes insurance companies which are included here. The distribution of assets has been recalculated.

companies in Canada and the merchant banks in Britain, and to a lesser extent life insurance companies and investment counsellors. In the case of

Canada nearly 60 per cent of externally managed pension fund assets are controlled by 10 money managers, including the 4 top trust companies, 3 major life insurance companies, and 2 independent fund managers.³⁵ In the United States, bank trust departments in conjunction with life insurance companies control 72 per cent of externally managed pension fund assets. The merchant banks in Britain are responsible for the investment management of nearly 50 per cent of externally managed pension funds.

While banking institutions and life insurance companies manage and control nearly three-quarters of total pension assets on average in the U.K., Canada and the U.S., the distribution or "re-sectoring" of pension capital between major financial institutions has undergone considerable alteration in recent years. In the United States, for example, bank trust department control has declined from 75 to 36 per cent of externally managed pension fund assets between the late 1950s and 1981.³⁶ The share of the market controlled by life insurance companies and independent fund managers has correspondingly increased. A similar pattern has emerged in Canada where there has been a diminution of pension assets under the control of life insurers and an increase in the proportion managed by trust companies and investment counsellors. This "re-sectoring" has resulted in monopolistic competition and polycentric nodes of control over pension capital within the finance sector.

The major financial institutions which manage and control pension fund assets have considerable discretion as to investment policy, subject to law and practice. The pension plan trust agreement establishes the latitude or discretion with which the plan sponsor allows the trustee (individual or corporate) to carry out investment policy. In most cases plan sponsors

give the trustee complete discretion in the investment of the fund, while others specify the classes of investment to be purchased and permit the trustee to select specific assets to be bought and sold within the prescribed classes. In extreme cases the trust agreement may stipulate that the trustee shall

buy and sell only those investments selected by the employer.³⁷

In short, a pension plan sponsor may allow the fund manager "full discretion" or put them "under direction" with respect to investment policy. In the United States and Canada 75 to 80 per cent of pension assets are at the "full discretion" of the investment manager. Pension fund managers in the U.K. have similar latitude.³⁸

The main point is that pension fund investment managers have significant discretion or control over the funds they manage. This means that the investment of pension funds depends to a considerable extent on the policies and vested interests of financial institutions such as banks and life insurance companies in the U.S. and U.K., and trust companies in Canada. This has clear implications with respect to control over saving, direction of investment, economic growth and ownership of corporate securities.

The concentration, centralization and control over pension capital by major financial institutions, and the discretion vested with investment managers, has resulted in a corresponding tendency with respect to the control over corporate shares, that is, the common stock or equity of companies managed by these same financial institutions through pension funds (Table 7.2). Minns' research indicates that in Britain there is a substantial divergence between the ownership and control of company shares by financial institutions. Table 8.18 contrasts the proportion of corporate shares owed and controlled by different sectors. The most significant difference between the ownership and control of corporate shares is evidenced by banks. Banks owed less than 1 per cent of all shares, but controlled nearly 18 per cent of corporate equity. Banks, insurance companies and stockbrokers together owned 17 per cent of corporate equity, but in fact controlled 41 per cent of company shares. In Britain, merchant banks were the large institutional controllers, while pension funds were the largest institutional owners. Significantly, while pension funds owned nearly

TABLE 8.18
OWNERSHIP AND CONTROL OF COMPANY SHARES,
BRITAIN, 1975

| Sector | Percentage | |
|--------------------------------|------------|---------|
| | Ownership | Control |
| Pensions | 37.5 | 29.9 |
| Banks | 0.7 | 17.6 |
| Insurance Companies | 15.9 | 17.1 |
| Investment and Unit Trusts | 14.1 | 11.1 |
| Stockbrokers | 0.4 | 6.3 |
| Pension Funds | 16.8 | 5.6 |
| Overseas Sector | 5.6 | 5.6 |
| Public Sector | 3.6 | 3.6 |
| Industrial and Commercial Cos. | 3.0 | 3.0 |
| Non-profit Organizations | 2.3 | 0.2 |

Source: Retabulated from Richard Minns, Pension Funds and British Capitalism (London: Heinemann, 1980), Table 1.8, p. 41.

17 per cent of company shares, in fact, they controlled only 6 per cent as a result of delegating investment management to financial institutions.³⁹

While studies of this important subject do not exist for Canada and the United States, similar conclusions can be inferred. In the United States, for example, in the late 1950s only 14 per cent of pension funds held 80 per cent of pension fund equity investment.⁴⁰ More recent data indicates that the top 10 pension fund money managers in the U.S. in 1982 control 45 per cent of fund shares and the top 20 fund managers control 76 per cent of total pension fund equity investment.⁴¹ Those money managers include such major financial institutions as J.P. Morgan & Co. Inc., Bankers Trust N.Y. Corp., Mellon National Corp., Prudential Insurance Co., Chemical New York Corp., and Manufacturers Hanover Co.

In conclusion, while pension funds are the formal, or registered, owners of corporate shares, control over these shares, and control over pension capital more generally, resides with and is located in dominant financial institutions as a result of the delegation of investment

management to those financial intermediaries. This analysis of the institutional framework surrounding the private pension system suggests that the growth, concentration and centralization of pension capital under the control of financial institutions has resulted in a "large gain in economic power for the financial community"⁴² in the post-war period.

8.8 The Structure of Pension Fund Power: Implications

The characteristics associated with the formal structure of pension fund power can be summarized as follows. Pension funds are now one of the largest pools of capital in advanced capitalist economies. The growth of pension fund assets, in absolute and relative terms, has significantly exceeded the asset growth experienced by other financial institutions and non-bank intermediaries, particularly in Canada and the U.S. Pension fund assets in Canada, for example, increased by a factor of 95, compared with the assets of all financial intermediaries which increased 33 times between 1946 and 1979.

Pension funds have become the growth center within the financial sector in capitalist economies and are now doubling their assets on average every five years. Pension funds have tripled as a proportion of total and non-bank financial intermediary assets in the U.S. and Canada in the post-war period. In Canada, private pension fund assets are projected to increase from 16 per cent of GNP in 1981 to 50 to 66 per cent of GNP by 2031.

A consequence of the growth of pension capital in the post-war period has been a transfiguration of the finance sector and a "re-sectoring" of pension assets between financial institutions. Pension funds in general have become the second largest institutional investor and the largest non-bank financial intermediary in the U.S., Canada and Britain. The private pension system has thus assumed a strategic position with respect to the finance sector and capital markets in advanced capitalist economies.

There is a substantial concentration and centralization of pension fund capital. The locus of control over pension fund capital in Canada resides in three institutions: large individual trustee (non-insured) pension funds, the trust company or corporate trustee, and the segregated pension funds of life insurance companies. Each of these pension arrangements, in turn, is characterized by a marked tendency towards the concentration and centralization of pension capital. In these three countries the 10 largest pension funds account for 25 to 30 per cent of total pension assets, while the top 20 funds represent nearly 40 per cent of the assets of the private pension system. The assets managed by large individual trustee pension funds have increased 4 fold in current dollars and by a factor of 2 in constant dollars between 1960 and 1979. The largest individual trustee pension funds are managed in-house so as to complement corporate profit maximization behaviour. Trust companies, within the unique Canadian financial system, are the major corporate trustee for pension plans. Pension funds have become the most important source of funds administered by trust companies. Pension funds represent on average nearly 60 per cent of total ETA accounts and nearly 50 per cent of the total assets controlled by the four largest trust companies and are thus vital to their operation. The two largest trust companies account for nearly 50 per cent of total assets and the top five control 80 per cent of all trust company assets. The segregated pension funds of life insurance companies are similarly concentrated and centralized. The four largest funds account for over 50 per cent of all segregated pension assets and the top ten segregated funds represent nearly 85 per cent of total pension assets controlled by life insurance companies.

The structure and economic power associated with the private pension system mirrors the organization of the finance sector and the general tendency towards the concentration and centralization of financial capital in Canada, Britain, and the U.S. This is a result of each type of

financial institution sponsoring a funding agency for the administration and management of pension fund assets. In Canada, for example, the top five trust companies control 67 per cent of total assets within that financial sector, while the same firms control nearly 75 per cent of corporate trustee pension plan assets. Five life insurance companies control nearly 60 per cent of total life insurance assets and a similar proportion of segregated pension fund assets.

The locus of strategic control over pension fund capital resides within the finance sector among a relatively few financial institutions. This is a result of pension fund investment management generally being delegated to financial institutions by plan sponsors. In Britain, Canada and the U.S. two-thirds of total occupational pension fund assets are externally managed. In Canada, 60 per cent of externally managed funds are controlled by 10 money managers, including 4 trust companies and 3 life insurers. In the U.S. bank trust departments and life insurance companies are responsible for the investment of 72 per cent of externally managed funds. Merchant banks in Britain control 50 per cent of externally managed pension assets.

The major financial institutions which manage and control pension funds have considerable discretion and latitude with respect to investment policy. In the U.S. and Canada 75 to 80 per cent of pension fund assets are managed at the "full discretion" of the investment manager. This suggests that the investment of pension funds depends upon the broad policies and imperatives of financial institutions operating within a capitalist economy.

Control over pension capital by dominant financial institutions has resulted in a corresponding tendency with respect to the control of corporate shares. There is an important difference between the ownership and control of company shares as a result of investment management through financial institutions. In Britain, for example, while banks and

insurance companies owned less than 1 per cent of shares they controlled 18 per cent of corporate equity. Pension funds on the other hand owned nearly 17 per cent of corporate shares, but only controlled 6 per cent. Thus, pension funds were the largest institutional owners and merchant banks the major institutional controllers of company shares. This has important policy and political implications.

A number of broad thematic implications can be drawn with respect to the structure of pension fund power. First, there is a tremendous concentration of private economic power and decision-making vested in the private pension system as a result of the control over and investment of the expanding pool of pension capital. Second, pension capital under contemporary capitalism is organically related to financial capital. Pension capital is a growth center within the finance sector. The concentration and centralization of pension and financial capital mutually reinforce one another, thereby strengthening the institutional power of the finance sector and the private pension industry. This in turn strengthens private sector control over and direction of pension capital. Third, the role played by the private pension system in terms of organizing and channelling the increasing flow of pension saving and investment places the private pension industry in a pivotal position with respect to the finance sector, capital markets, industrial corporations, and the economy.

Fourth, the concentration and centralization of pension capital under the control of dominant financial institutions results in their having an important vested interest in the continued existence of the private pension system and industry. Within the framework of a capitalist economy pension capital, as an organic part of financial capital, concurrently serves the specific interests of the financial institutions controlling it and the general interests of the corporate sector and economy with respect to investment and capital accumulation. Fifth, it may be anticipated that as a

result of the strategic role played by the private pension system in capitalist economies, and the vested interest of the pension industry and financial institutions, that they will be the primary political obstacle to the reform of the public and private pension systems. Sixth, the universal limitations and inadequacies of occupational pension plans are ultimately based on the institutional strength and economic power of the private pension system. This explains the underdevelopment of the public pension system and the immiseration of the elderly. Under advanced capitalism the continued existence of the private pension system in the final analysis is related to the systemic imperatives of dominant financial and industrial corporations, rather than the elderly's requirement for adequate retirement income.

Under conditions of mature capitalism the pension system's investment function, and the control of corporate shares by financial institutions through pension arrangements, has increasingly facilitated the interpenetration and interdependence of industrial and financial capital. The pension system's investment function, intrinsic to the operation of the private pension system and the institutional structure of power, has therefore become a mechanism promoting the integration of the finance and industrial sectors into an unified nexus of corporate power.

CHAPTER 9

THE PENSION SYSTEM AND THE NEXUS OF CORPORATE POWER

"The [financial] system transforms itself into an immense social mechanism for the centralization of capitals."

Karl Marx

9.1 Introduction

It has been established that the formal structure of pension fund power is the institutional expression of the concentration and centralization of pension fund capital underlying the operation of the private pension system. Pension capital is organically related to financial capital and the organization of the broader finance sector. The focus of this chapter is the connection between financial and industrial capital and the way in which the pension system's investment function has served as a mechanism to forge this link. The pension system's investment function has increasingly facilitated the interpenetration, that is, the integration or fusion of industrial and financial capital under advanced capitalism. The pension system is linked to the finance and industrial sectors through a complex series of formal and informal mechanisms and arrangements resulting in an unified nexus of corporate power.

Several related topics are examined. First, the formal linkages between the private pension system and the broader finance and industrial sectors are identified and traced in detail through interlocking corporate directorships and direct equity investment resulting in an integrated structure of corporate power, with particular reference to the configuration of control in Canada. Second, the various ways in which the pension

system's investment function acts as an integrative mechanism promoting the amalgamation, or fusion, of industrial and financial capital are delineated. Pension fund investment through the capital market in the industrial sector is one mechanism by which the coalescence of financial and industrial capital is facilitated and accelerated, with a corresponding series of formal and informal intra-and-intersectoral linkages, resulting in a greater concentration and centralization of economic power in the corporate sector.

Third, as a result of this interpenetration, pension funds as institutional investors, with their concentration of corporate shareholdings, are changing their traditional role as passive investors and are becoming increasingly more assertive with respect to intervening in corporate affairs so as to protect and maximize their investment. It is suggested that there is a maturing systemic integration and functional convergence between the finance and industrial sectors. This has implications with respect to the locus of control over the industrial sector, and possible alternative economic strategies. Fourth, a series of mutually reinforcing mechanisms which maintain private sector control over pension capital and the operation of the private pension system are identified and examined. The political behaviour of financial institutions, formal and informal linkages between the corporate, political and bureaucratic elites, and the dominant market ideology all serve to complement the formal economic structure of pension fund power and effectively incorporate it into the broader network of corporate power under advanced capitalism.

9.2 Theoretical Background

To establish the importance of the pension system's investment function as a mechanism which promotes the interdependence of the finance and industrial sectors under advanced capitalism requires conceptual clarity and consistency because many of the terms commonly

associated with this relationship have been misinterpreted and obscure the underlying process. The lack of consistency with respect to terminology has resulted in analytic confusion and vulgar treatments of the relationship between financial and industrial capital.

"Finance capital" is the term often used in the Marxist literature to describe the close interrelationship between financial and industrial capital.¹ The term "finance capital" has its origin in the work of Hilferding² (1910) and forms the basis of Lenin's analysis (1917) of finance capital and imperialism.³ Hilferding's formulation specified that "bank capital, i.e., capital in money form, which is actually transformed into industrial capital...[is] 'finance capital'. Finance capital is controlled by banks and employed by industrialists."⁴ Building on this approach, Lenin subsequently argued that a "handful of monopolists subordinate to their will all the operations, both commercial and industrial"⁵ resulting in "the ever growing merger, or, ...coalescence, of bank and industrial capital."⁶ Lenin referred to "finance capital" as "the merging or coalescence of banks with industry - such is... finance capital and such is the content of this term."⁷ In this regard Lenin noted that there is a "close connection between the banks and industry"⁸ so that a

union...is established between the banks and the largest industrial and commercial enterprises, the merging of one with another through the acquisition of shares, through the appointment of bank directors to...(Boards of Directors) of industrial and commercial enterprises, and vice versa.⁹

Hilferding and Lenin therefore viewed finance capital as the integration or interpenetration, that is, the fusion or coalescence of financial and industrial capital as a result of interlocking directorships and direct equity investment between sectors of the economy. "Finance capital", by definition, then, is the fusion of financial and industrial capital.

In recent years, however, some vulgar analyses have confused the concept of finance capital.¹⁰ The term "finance capital" has been

mechanically equated with "financial oligarchy" by some so that financial institutions effectively dominate the industrial sector. This conceptualization lends itself to a conspiracy theory. More importantly, such a view is contrary to Hilferding's and Lenin's formulation of the subject which clearly stresses that finance capital as the fusion of financial and industrial capital is a symbiotic, rather than a parasitic, process because "only industrial capital... contains productive capital, and this creates value and surplus value in which banking and commercial capital share."¹¹ Consequently, while banking capital may dominate, "it is at the same time dependent on industrial capital."¹² Whether financial or industrial capital dominates at a particular time is clearly historically specific and is related to the economic development of each national capitalist economy.

Further confusion has resulted because while conceptually relying on the Hilferding-Lenin formulation, some have used different terms to describe it. Mandel, for example, described "monopoly capitalism" as that phase where "banking-capital increasingly merges with industrial capital into finance capital" so that "a few very large financial groups dominate the economy of each capitalist country."¹³ In a similar vein Aaronovitch has argued that the "fusion of banking and industrial capital means that the spheres... have become increasingly integrated... by way of... coalitions and... partly by way of financial organizations entering industry and industrial firms becoming financiers."¹⁴ Aaronovitch makes the interesting and useful analytic distinction between "fusion" as direct equity investment and "linkages" as interlocking directorates. Baran and Sweezy use the term "monopoly capital" as referring to industrial capital's relative "autonomy" or "independence" in relation to the finance sector as a result of the high level of internal funding experienced by corporations.

The position adopted here is that the combination, or coalescence, of financial, industrial and commercial capital is "finance capital".

Following Aaronovitch the analytic distinction is made between fusion as equity investment, that is, shareholdings between the finance and industrial sectors and linkages which represent interlocking directorships. Therefore the nexus of corporate power, incorporating the private pension system, under conditions of advanced capitalism is the "fusion" of financial institutions and industry "expressed in the system of effective possession, the mode of investment funding, and...an extensive network of communication."¹⁵ This formulation incorporates both the formal and informal elements of the nexus of corporate power and permits a broader examination of the fusion and linkages within the finance sector and those between financial and industrial capital.

9.3 Pension Funds and the Systemic Interpenetration of Capital

The fusion of financial and industrial capital results in a complex interlocking network and concentration of corporate power and influence in advanced capitalist economies. The main patterns are traced in the case of Canada through direct and indirect interlocking directorships, holding company arrangements and direct portfolio (equity) investment between financial institutions and industrial corporations. What emerges is a pattern of intercorporate ownership, cross-directorships, and intersectoral investment reinforced by a series of common social relations, shared ideology, and formal and informal linkages and mobility between the business, political and bureaucratic elites. This is the nexus of corporate power. And power, as one commentator observed

is what counts...power means the ability to get your own way, to shape events.

The pivotal people, [are] the power brokers who carry the proxies for the great law firms and financial institutions...The next group in this category would probably be the invisible men who manage the country's private pension plans.¹⁶

A complex constellation of power and control is associated with the private pension system under advanced capitalism. Pension capital, under the

domination of financial institutions, is an organic part of financial capital, and is increasingly integrated with the industrial sector.

9.3.1 Historical Background. Canadian capitalism is characterized by a bifurcated model of economic development. Financial capital historically was and remains the indigenous bastion of Canadian capitalism. As early as 1911 the Webbs observed the "remarkable development of banking" in Canada.¹⁷ The industrial sector since the 1920s, however, has been dominated by American transnational corporations, resulting in an externally controlled "branch plant" economy. Only recently has the finance sector become interested in promoting domestic industrial activity.

Historically there has been a close working relationship between dominant financial institutions within the finance sector in Canada. Of particular importance is the close traditional relationship between banks and trust companies: Royal Trust and the Bank of Montreal, Montreal Trust (now Montreal Trustco) and the Royal Bank, and National Trust and the Canadian Bank of Commerce (now the Canadian Imperial Bank of Commerce).¹⁸ Until recently the linkage between banks and trust companies was characterized by an extremely high density of formal interlocking directorships.¹⁹ Similarly in the past there has been a close relationship between life insurance companies, banks and trust companies.

There has been as well a close interrelationship between the finance and industrial sectors in Canada. Numerous studies have demonstrated the central role played by major banks and insurance companies in the concentration of economic power in Canada.²⁰ Porter, for example, shows that directors of the top banks held nearly a quarter of the top industrial directorships, and that over half of the top banking directorships were held by directors of major industrial corporations. Insurance company directors held 14 per cent of top industrial directorships,

while over half of insurance company directorships were held by industrial directors and almost half by bank directors. Dominant industrial directors held 58 per cent of bank directorships and the same proportion of insurance company directorships.²¹

The interconnections between the Royal Bank, Bank of Montreal and the Canadian Imperial Bank of Commerce and the industrial sector are of particular importance. These three banks held two-thirds of all directorships of dominant manufacturing corporations and 60 per cent of the directorships of Canadian insurance companies in the late 1950s. Life insurance companies, in particular Sun Life, Mutual Life and Confederation Life, represented nearly 60 per cent of directorships in leading industrial corporations held by insurance companies. The largest of these interpenetrating networks, representing the major actors in the finance and industrial sectors, was the group consisting of the Bank of Montreal, Royal Trust, Sun Life, CPR, and the Steel Company of Canada.²²

Historically, "the development from personal to impersonal possession is associated with an integration and interdependence between the finance and industrial sectors of the economy."²³ The development from entrepreneurial to finance capital in Britain, Canada and the U.S., however, has occurred at different rates and followed separate routes.²⁴ What is of significance and interest in recent years in the advanced capitalists economies of Britain, Canada and the U.S. is the reorganization and rationalization of the finance sector and a change in the modality of interpenetration between financial institutions. As a starting point it is therefore necessary to place those institutions responsible for the control and investment of pension funds within the context of the broader finance sector.

9.3.2. Financial Capital: Reorganization and Rationalization.

The finance sector in Canada is in the process of fluid and dynamic change.

these changes are taking three forms. First, the finance sector has been undergoing a major reorganization since at least 1980. Specifically, the hard core of formal interlocking directorships between financial institutions has been removed so that traditional relationships are not as close as in the past. Second, the interconnection between financial institutions is increasingly intermediated through holding companies based on the fusion of capital, that is, direct equity participation, rather than through formal interlocking directorships, resulting in vertical integration within the finance sector and horizontal linkages to the industrial sector. Third, recent years have witnessed the increased integration of financial services, that is, the creation of financial conglomerates or "supermarkets", including pension arrangements. This will increase the concentration and centralization of economic power within the finance sector, as well as accelerating the interpenetration and interdependence between the finance and industrial sectors.

Economic power is concentrated among a few dominant institutions within the finance sector (Table 8.4). These same financial intermediaries control the investment of the rapidly growing pool of pension capital (Tables 8.1 and 8.2). Control over the direction of pension capital is secured through formal and informal connections between dominant financial institutions, and a series of social relations within the finance sector.

"Within the finance sector," according to Clement, "the banks and insurance companies, along with the trust and mortgage companies...have the most extensive interlocks."²⁵ One of the most important relationships has been between banks and trust companies. Trust companies are the major corporate trustee for pension funds and hold 25 per cent of total pension fund assets. According to the Royal Commission on Banking and Finance, "each of the banks has a close relationship with at least one

trust company, some of them loose working relations of long standing and others ownership affiliations."²⁶ In the past some dominant banks have been major partners in trust companies, having both an equity position and interlocking directorships.²⁷ Thus, while banks do not have fiduciary powers, according to Neufeld, "they put themselves into a position where they would...have an incentive to provide assistance in trust matters to customers by directing [them] to particular trust companies."²⁸ According to one official government study, "one half to three quarters of the trust business of larger corporations went to bank-affiliated trust companies".²⁹ In this regard McNulty concluded with respect to the United States that, "it does appear that prior connections which the funding agency may have with the client...often provide[s] the push which turns...pension business to a particular funding agency."³⁰ The traditional close relationship between banks and trust companies in Canada effectively tightens the control which dominant financial institutions have over pension capital.

Similarly there has been a close relationship between banks and insurance companies and, in turn, insurance companies and trust companies. Insurance company segregated funds are the third largest funding medium for pension funds, representing 22 per cent of total pension assets. Granger's study found that in 1979 sixty-three directors of the five largest banks sat on the boards of the 16 largest life insurance companies.³¹ For example, Sun Life, the largest insurance company in Canada, had 13 of its 20 directors sitting on bank boards: 4 at the Royal Bank, the largest and most influential bank, and 3 directors on the board of Royal Trust, the major trust company.³² At that time Sun Life also held large blocks of stock in two major banks.³³ To complete the circuit, 18 insurance companies had 70 interlocks with 20 trust companies.³⁴

Banks as well have working relationships with large investment dealers and brokerage firms.³⁵ Brokerage firms and investment dealers trade securities on behalf of and undertake private placements to institutional investors such as pension funds. According to Newman, the Royal Bank was closely associated with Wood Gundy, the most powerful investment firm in the country; Dominion Securities reportedly had a link with the Canadian Imperial Bank of Commerce (CIBC), the second largest bank; and A.E. Ames and Co. did most of the floor trading for the Bank of Montreal, the third largest bank.³⁶ Since that time, however, there has been a considerable "shakeout" in the securities industry with Dominion Securities merging with Ames, and subsequently with Pitfield, MacKay and Ross.³⁷ More speculatively, although there are no studies on the subject, the close traditional relationship between banks and trust companies suggests that trust companies, as corporate trustee's for pension funds, may direct their trading activity to bank associated brokerage firms.

Formal interlocking directorships have been the traditional mechanism within the Canadian finance sector to centralize and concentrate economic power, including pension capital, among major financial institutions. Interlocking directorships have served as a mechanism to co-ordinate business activity, as required, and to collect and disseminate information. However, over the past twenty years, as a matter of public policy an attempt has been made to promote "intermodal competition" between financial institutions in Canada.³⁸

A number of important legislative changes have been introduced which have substantively altered the character and density of interlocks within the finance sector. Specifically, the Bank Act 1967 forbid formal interlocking directorships between banks and trust companies; concurrently, banks were forced to reduce their equity holdings in trust companies to no more than 10 per cent of outstanding voting stock. In addition, Canadian

insurance law was amended so as to prohibit life insurers from directly owning trust companies, mutual funds and investment companies. The use of holding company arrangements, however, allows them to expand into these fields. Significantly, the current legislation still permits interlocks between banks and insurance companies and between trust companies and life insurers. Furthermore, the legislation allows equity investment of up to 10 per cent of outstanding shares between financial institutions: banks and trust companies in one another, and life insurance and trust companies in banks; virtually all life insurance companies in Canada are mutualized and do not have outstanding shares. Thus, while formal interlocks between certain financial institutions are now prohibited by law, direct equity participation between financial institutions remains.

"Legislative enactment," however, "may not be able to achieve the desired separation" between financial institutions because "banks have too great an interest in trust company operations."³⁸ The indirect interlock, or the "friend of a friend", for example, is a means to circumvent the Bank Act restriction on bank-trust company interlocks. A case in point is when Power Corporation subsidiary Laurentide Financial Corporation Ltd. merged with the Provincial Bank in 1979. Mr Paul Desmarais and several other Power Corporation directors were on the board of Montreal Trust Company (now Montreal Trustco) which is 50 per cent owned by Power Corporation. As a result they had to resign from the newly merged organization. Mr Desmarais was quoted as saying, "maybe we'll ask someone already on the board to look after our interests...or we could have someone represent us who wasn't directly related to Power."³⁹

There are indications that the character of linkages and fusion within the finance sector in Canada have undergone a fundamental transformation within recent years. The earlier studies of the subject quite correctly emphasized formal interlocking directorships as the co-ordinating

mechanism facilitating the centralization and concentration of financial capital.⁴⁰ It would appear, however, that direct equity investment and holding company arrangements in recent years have increasingly supplanted interlocking directorships as the means to integrate and co-ordinate financial capital. Stewart, for example, reported that major banks had 6 linkages to the top 5 life insurance companies in 1980.⁴¹ By 1983, however, an analysis of annual reports indicates that dominant banks had only 3 links to 2 of the top life insurers. Similarly, there were only 2 insurance company interlocks among the top 5 trust companies.⁴² Bank-trust company interlocks are now prohibited by law. This information suggests that there has been a diminution of traditional interlocks, even where permitted by legislation, as the mechanism to centralize and concentrate capital within the finance sector.

Correspondingly there has been an increasing reliance upon direct equity investment and holding company arrangements to promote the interpenetration and amalgamation of financial capital in Canada. The shareholdings between major financial institutions, specifically life and trust company investment in banks, is reported in Table 9.1. Table 9.2 outlines significant ownership of trust company shares by life insurance companies and holding companies. In this regard it should be noted that while the Ontario Securities Act designates a shareholding of 20 per cent or more as a "control block" and 10 per cent as an "insider" or "significant" shareholder position, the Bank Act 1980 implicitly deems holdings of 1/2 of 1 per cent to constitute a significant shareholder position.⁴³ Trust and life insurance companies as administrators and investment managers for pension funds therefore have an important equity position in the banking sector, as indicated by Table 9.1, further integrating the capital under the control of financial institutions. Moreover, a recent amendment to the Bank Act accelerates the co-mingling of financial capital by permitting the

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Note: 1. Numbers in brackets refer to sectoral ranking based on assets.

Source: Calculated from the "Return of Shareholders Listing" filed with the Inspector-General of Banks, Department of Finance, as of October 31, 1983.

occupational pension plans of banks to buy shares of other banks.⁴⁴ Trust company shares held by other financial institutions similarly integrates financial capital (Table 9.2).

TABLE 9.2
SIGNIFICANT SHARE OWNERSHIP
OF
TRUST COMPANIES
BY FINANCIAL INSTITUTIONS, CANADA, 1983

| <u>Trust Company¹</u> | <u>Major Shareholder</u> | <u>Corporate Affiliation</u> |
|----------------------------------|--|--|
| Royal Trustco | 47% Trilon Financial Corp. (holding company) | To Edper Investments (Bronfman family trust) through Brascan |
| Canada Trustco | 23% Manufacturers Life | To Canada Trust Mortgage Company |
| Montreal Trustco | 40% Investors Group; 10% Power Financial | To Power Corporation |
| Canada Permanent | 100% Canada Permanent Mortgage Company | - |
| National Trust | Widely-held | - |

Note: 1. Ranked by assets.

Sources: The Financial Post 500 (June 1983); Lawrence Welsh, "Trilon Plans to Intensify Financial Services", The Financial Post, November 12, 1983. Sonita Horvitch, "Canada Trustco Stays Out of Financial Furor", The Financial Post, December 24, 1983 and Robert Giddens, "Power Corp. Studying Switch into an Operating Company", The Globe and Mail, May 4, 1984.

A significant and emerging trend accelerating the concentration of financial capital is the creation of financial conglomerates or "financial supermarkets"; that is, the creation of formally integrated and rationalized financial services including credit cards, consumer loans, mortgages, investment services, insurance, annuities and pensions, based on the elimination of traditional barriers between financial institutions. This trend is now clearly evidenced in Britain, Canada and the U.S.⁴⁵ In the United States, for example, stock brokers such as Merrill Lynch, Bache and Dean Witter are now involved in non-securities businesses such as insurance brokerage. The subsequent purchase of Bache by Prudential Life, American Express Company's merger with Shearson and the expansion of retailers such as Sears Roebuck and J.C. Penney into financial service companies are

transforming the character and organization of the finance sector. Similarly, in Canada there has been a "dramatic change in the role of financial institutions" where many "banks, life insurance, and trust companies have become financial conglomerates."⁴⁶ The ruling of the Ontario Securities Commission allowing banks to act as stockbrokers (1983), the passage of Bill 75 by the Quebec National Assembly to promote "financial supermarkets" (June 1983), the merger of Dominion Securities-Ames-Pitfield MacKay Ross (1983-1984),⁴⁷ the recent merger of National Trust and Victoria and Grey into the third largest trust company (July 1984), Brascan's creation of a new financial group in addition to Trilon (August 1984),⁴⁸ Manulife's acquisition of Dominion Life (early 1985), and the impending merger between Canada Trustco and Canada Permanent (late 1985) are all indications of the accelerating trend towards the integration, rationalization and consolidation of financial capital.

As the distinction between banks, trust companies, investment dealers, and life insurers has become increasingly blurred in Canada, a functionally integrated financial system is emerging. Holding company arrangements are pivotal to the creation of financial conglomerates and the amalgamation of financial capital in Canada, including pension fund assets. Two cases are of particular interest with respect to the use of holding company arrangements and direct equity investment to create financial conglomerates to centralize and concentrate financial capital: Power Corporation and Edper Investments Limited.

Power Corporation, the largest diversified holding company in Canada on a consolidated asset basis, owns and controls Montreal Trustco and Great-West Life through its subsidiaries Power Financial and the Investors Group, using a combination of direct equity participation and interlocking directorships. Montreal Trustco and Great-West are the third largest trust company and life insurer respectively. Montreal Trustco has

the third largest pool of corporate trustee pension fund assets under administration, while Great-West manages the assets of the fifth largest segregated pension fund in the insurance industry (Tables 8.13 and 8.14).

The creation by Edper Investments, one of two privately held Bronfman family trusts, of Trilon Financial Corporation through its Brascan subsidiary is a recent example of the formation of a financial conglomerate using direct equity participation through holding company arrangements. Trilon Financial Corporation was formed in 1982 to explicitly integrate and co-ordinate financial services,⁴⁹ with a resultant impact on the organization of the finance sector. Trilon owns London Life, the fourth ranked life insurer, and has a controlling equity position in Royal Trustco, the largest trust company in the country. Royal Trustco controls the largest volume of pension assets under administration of any trust company (Table 8.13). In addition, Trilon has a substantial equity position in the fifth ranked Toronto-Dominion (TD) bank. In turn, the Toronto-Dominion bank pension fund has a 15 per cent interest in Trilon Financial. Reinforcing this control are interlocks from Brascan, owned by Edper Investments and the holding company for Trilon, to Royal Trustco and the T-D bank.

The foregoing suggests that the finance sector in Canada is in the process of a significant transformation and reorganization. Whatever the final configuration, it is evident that there will be a considerable expansion of the concentration of economic power under its control. The rapidly growing pool of centralized and concentrated pension capital, controlled by a few financial institutions, enhances this power and accelerates the natural tendency towards the amalgamation of capital within the finance sector. The finance sector, in turn, has become increasingly integrated with industrial capital.

9.3.3 The Integration of Financial and Industrial Capital. Under advanced capitalism there is an increased interpenetration and

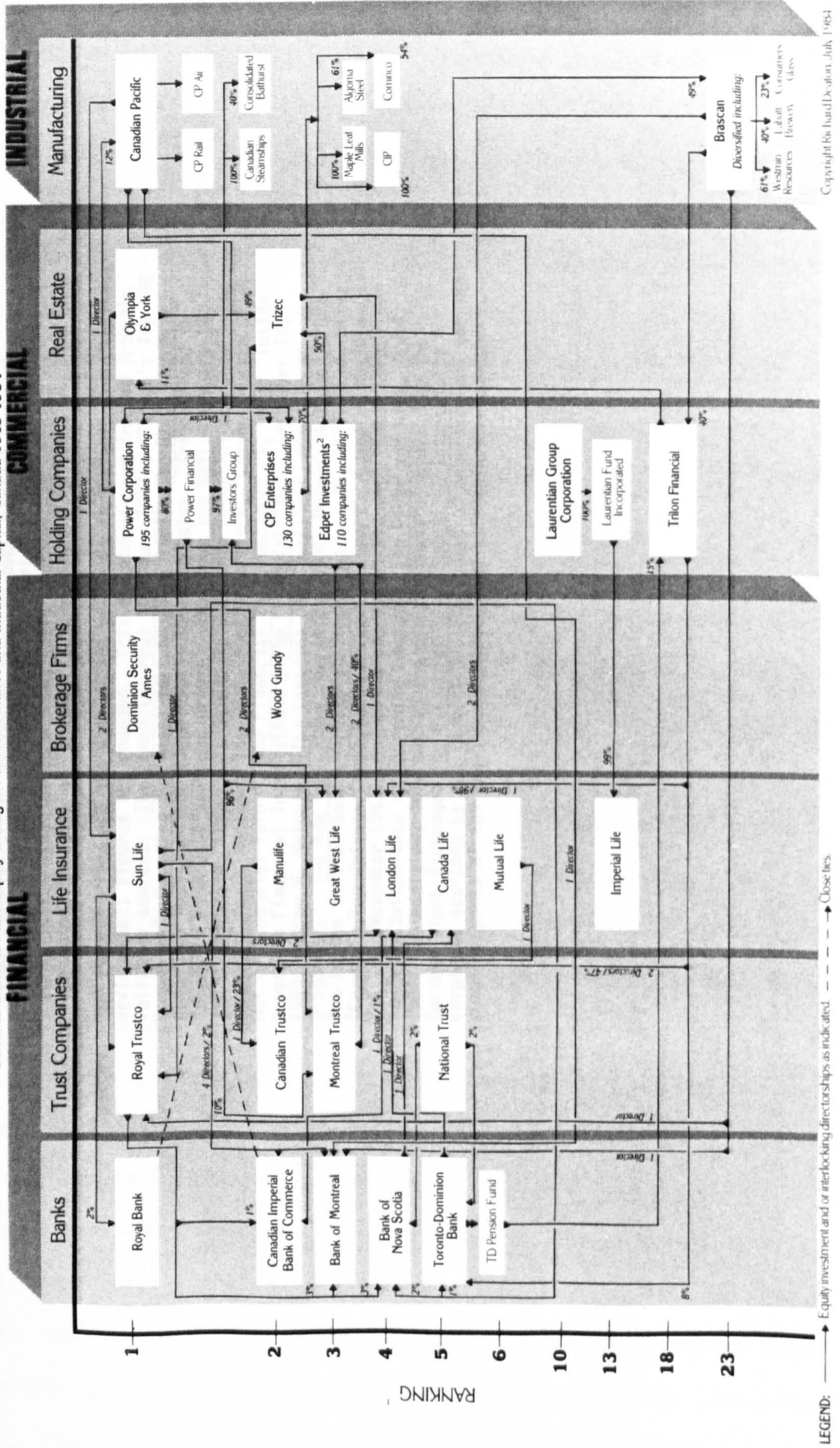
interdependence, that is fusion, between financial and industrial capital. The amalgamation of financial capital is paralleled by a similar process in the industrial sphere and between the two sectors. This has effectively resulted in the integration, or "fusion", of the finance and industrial sectors, with the resultant unification and strengthening of capital in general.

The close relationship between the finance and industrial sectors in Germany, Japan, France, Britain and the United States is well documented.⁵⁰ In the U.K., for example, "the separation of banking and industry," according to Prais, is "being ... slowly replaced by an association between the new financial institutions and industry ... bringing the British system closer to that of the Continent."⁵¹ Studies of the subject with respect to Canada in the early 1960s indicated that top banks held nearly a quarter of the major industrial directorships; conversely, over half of the top banking directorships were held by directors of leading industrial corporations. Top insurance company directorships were equally shared by top industrial and bank directors. In turn, top industrial directors held nearly 60 per cent of bank and insurance directorships.⁵² Clement using 1972 data reported a density ratio for interlocks, that is, the proportion of potential to actual interlocks, of .62 between finance and manufacturing.⁵³ Granger, for example, noted that the directors of the Royal Bank and Bank of Montreal, the first and third largest banks respectively, sat on 110 of the 250 largest non-financial corporations in Canada in 1979.⁵⁴ The "concentration of power in six financial corporations," according to Johnson, "is made even more impressive when one remembers these corporate directors meet together on the boards of directors of their innumerable smaller interests."⁵⁵ Thus there are a series of interconnected corporate networks unifying the finance and industrial sectors in Canada into "fused" capital.

Figure 9-1, constructed from various sources, identifies and reports selected equity linkages and interlocks between and among major corporations in the finance and industrial sectors in Canada in 1983-1984. This presents the various interconnections within the transfigured finance sector in relation to the manufacturing sector. Equity linkages and interlocks were traced within the finance sector as well as to and from the industrial sector. Only those industrial corporations with equity exposure or which satisfy the significant shareholder criterion are included, thereby excluding many important U.S. subsidiaries and privately held corporations. Interlocks from the finance to the industrial sector were limited to major corporations, or to those which were previously established, due to the plethora of linkages. Figure 9-1 therefore represents the interdependent nexus of power between major industrial corporations and financial institutions, including those which control pension capital.

Based on this information three centers of power can be identified. First, the dominant characteristic is first-tier linkages between the industrial, commercial and financial sectors, and among financial institutions where allowed. The Royal Bank, the largest and most powerful financial institution in Canada, for example, has at least 40 interlocks to key industrial corporations throughout the economy⁵⁶ (these are not reported in Figure 9-1). Sun Life, Canada's major life insurance company has 1 director on the Royal Bank's board (compared with 4 in 1979) and 1 on Royal Trustco's, the largest trust company. Royal Trustco and Sun Life are the major corporate trustee and segregated fund managers respectively for pension fund assets (Tables 8.13 and 8.14). Olympia and York, the largest commercial real estate developer has 2 representatives on Royal Trustco's board of directors. Power Corporation, the largest holding company on a consolidated balance sheet basis, with 195 companies under its control has a 12 per cent equity interest in Canadian Pacific (CP), the largest industrial

FIGURE 9-1
Selected Interlocks and Equity Linkages between Finance and Industrial Capital, Canada 1983-1984



- Notes: 1. Ranking by sector is on the following basis: within the finance sector, banks and life insurance companies by assets; trust companies by assets under administration; brokerage firms by total capital employed. Corporations in the commercial and industrial sectors ranked on a consolidated asset balance sheet basis from various sources.
2. Ranked on the basis of "insider" information.

Sources: The figures cited are the most recent available in a highly fluid business environment; figures are rounded. This diagram was constructed from the following sources: The Financial Post 500 (June 1983); "Canada's Top 500 Companies", Canadian Business, Vol. 56 (July 1983); The Globe and Mail, Report on Business 1000 (June 1984); Lawrence Welsh, "Trillon Plans to Intensify Financial Services Growth", The Globe and Mail, February 18, 1983; Amy Booth, "Brascan's Strategic Push Into Financial Services", The Financial Post, November 12, 1983; Sonita Horvitch, "Canada Trustco Stays Out of Financial Furor", The Financial Post, December 24, 1983; "Inside Report on Financial Institutions", The Financial Times, September 12, 1983; Andrew H. Malcolm, "The Canadian Conglomerates: Monopoly or Oligarchy?", The New York Times, March 23, 1981; Deborah McGregor, "CP: The Empire Strikes Back", Financial Times, October 24, 1983; David Olive, "Canada's Top Private Companies: A Special Report", Canadian Business, Vol. 56 (November 1983), pp. 33-60 and Robert Giddens, "Power Corp. Studying Switch into an Operating Company", The Globe and Mail, May 4, 1984. In addition, information and proxy circulars supplied by the Toronto Stock Exchange; The Financial Post, Survey of Industrials; corporate searches by the federal Superintendent of Insurance and the 1983 annual reports of the top 5 banks, trust, and life insurance companies.

based conglomerate which controls some 130 corporations. Mr Paul Desmarais, Chairman and CEO of Power Corporation, was recently elected a director of CP Enterprises,⁵⁷ the second ranked holding company, which is 70 per cent owned by Canadian Pacific, thus interlocking the first and second ranked holding companies. In turn, Canadian Pacific interlocks with Sun Life, thereby connecting the top ranked industrial conglomerate with the major life insurance company. What clearly emerges are a series of horizontal linkages between the dominant economic actors in the finance and industrial sectors of the Canadian economy.

Second, in addition to primary linkages, there are a series of intense subordinate interconnections and groupings within and between the various sectors at different tiers. At the first-tier within the finance sector, for example, there is a close working relationship between the two major banks and brokerage firms.⁵⁸ Top ranked Royal Trustco has a series of equity links with the Canadian Imperial Bank of Commerce (CIBC) and the Bank of Nova Scotia, the second and fourth ranked banks respectively. The Bank of Nova Scotia is interlocked with Canada Life, and London Life with Royal Trustco. Mutual Life, the sixth ranked insurer is also interlocked to Royal Trustco. At the second-tier, Manufacturer's Life has a 23 per cent (non-voting) interest in Canada Trustco. In addition, Sun Life and Edper Investments (through Brascan) have connections with the fifth ranked Toronto-Dominion (TD) bank.

The sectoral integration between and among dominant financial and industrial corporations is also evidenced by first and third-tier linkages. For example, Canadian Pacific, Royal Trustco and Sun Life, the top institutions within their respective sectors, are all interconnected with the Bank of Montreal, the third ranked bank. Trizec Corporation, the second largest commercial realtor, owned jointly by Olympia and York and Edper Investments, is interlocked to Royal Trustco and London Life. The

interconnecting chaining of industrial, financial and commercial networks is endless. This evidence indicates that in addition to important horizontal linkages between the finance and industrial sectors that there are deep vertical interconnections within the finance sector.

Third, holding company arrangements have increasingly become the interface between the industrial and finance sectors in Canada. Holding companies have effectively served to fuse financial and industrial capital into finance capital. Three constellations, or groupings, are of particular significance. It is useful to differentiate for analytical purposes between what might be termed industrial based conglomerates and commercial based holding companies. An example of the former is Canadian Pacific (CP), which owns and controls 130 corporations, including CP Enterprises which acts as a holding company and, in turn, controls innumerable firms in key sectors. CP as previously established has linkages to and from Sun Life, Power Corporation and the Bank of Montreal. The CP pension fund is the third largest in Canada (1980). Edper Investments Limited and Power Corporation are examples of commercial based holding companies which are extensively interconnected to other sectors. The Edper Investments complex encompasses 110 companies including a controlling interest in the diversified industrial based Brascan holding company and the recently created Trilon Financial Corporation; Trilon is the holding company for Royal Trustco and London Life. In addition, Edper is interlocked to the Bank of Montreal and has a significant equity interest in the Toronto-Dominion bank. Power Corporation controls some 195 companies, including Montreal Trustco and Great-West Life; in addition, it formerly owned Imperial Life (until forced to divest in 1977) and the Laurentide Group (now the Laurentian Group).⁵⁹ The current president of Imperial Life (1984), owned by the Laurentian Group, however, was formerly a senior executive with Power Corporation.

These three conglomerates - CP, Edper and Power Corporation - therefore own and/or control over 435 corporations throughout the economy and directly or indirectly have under their "strategic control" some \$27.9 billion or 43 per cent of total pension assets in Canada through dominant interconnected corporations (1980).⁶⁰ These data lend support to Porter's claim that the nuclei of economic power in Canada are the large holding and investment companies.⁶¹ Despite the contention that the different funding agencies for pension plans sponsored by financial institutions - trust and life companies - purportedly compete with each other, there are marked "tendencies towards segmentation of the market".⁶² Segmented or differentiated markets are a classic characteristic associated with monopolistic competition and oligopolistic market structure.⁶³

In general, what appears are horizontal linkages between financial sectors, where permitted, and vertical integration between tiers as a result of direct equity investment through holding companies which interface and horizontally link the finance and industrial sectors. This has resulted in the increased amalgamation and growth of capital within and between the financial and industrial spheres. The interdependence of the finance and industrial sectors through interpenetrating corporate networks has significantly unified and fused capital. This may signify the transition to "spheres of influence" and "interest groups" as the dominant form of business organization in Canada, as is the case in some other capitalist economies.⁶⁴ The increased fusion of financial and industrial capital in Canada is, by any other name, monopoly capitalism. What is new is the role of pension funds as a mechanism to facilitate and promote the interpenetration and interdependence of capital between the finance and industrial sectors under advanced capitalism. This results in strengthening private sector control over pension capital.

9.4 Pension System Investment Function as an Integrative Mechanism

The pension system investment function is a vital link between the finance and industrial sectors. Under advanced capitalism investment by institutional investors, such as pension funds, has effectively resulted in socialization of the industrial sector. This is a natural consequence of investment by pension funds, and other institutional investors, in corporate securities and in particular equity shares of major corporations.

In Britain, Canada and the U.S., institutional investors in general, and pension funds in particular, are now the dominant force in the securities market and have the largest holdings of corporate shares (Tables 7.2 and 7.13). The investment function underlying the operation of the pension system therefore facilitates the interpenetration and interdependence of financial and industrial capital. The penetration of the industrial sector by pension funds through the securities market, suggests that they might exercise potential control over the industrial sector. This has implications with respect to strategies for social change and is dealt with in Chapter 10.

"Through the acquisition of stock in corporations," Harbrecht argued, "financial organizations have begun to gather to themselves the...rights of control that have always been attached to shares of stock" placing "institutions in a position of control in the most influential...corporations."⁶⁵ In the United States in the mid-1950s bank trustee shareholdings of individual corporations through pension funds ranged from 1/2 to 7 per cent of outstanding issues.⁶⁶ Institutional share ownership is now considerably greater. Based on 1981 survey data, for example, institutions owned 89 per cent of AMP Inc., 80 per cent of Mattel Inc., 79 per cent of Lockheed Corp., 77 per cent of Motorola Inc., 77 per cent of Nalco Chemical Co. and 71 per cent of Texas Instruments.⁶⁷ Consequently, the growth of bank control over companies in the U.S. has increased as a result of their concentrated pension fund shareholdings.⁶⁸

The concentration of corporate shareholdings among institutional investors and pension funds is similarly evidenced in Britain and Canada. In Britain, according to Minns, 30 financial institutions control over 20 per cent of the share capital in 36 of the 50 largest corporations, 25 per cent in 30 companies, over 30 per cent in 17 firms and over 35 per cent in three companies.⁶⁹ Recent years have witnessed an increased rate of penetration of large-scale industrial enterprises by the financial institutions responsible for the administration of pension funds.⁷⁰ In Canada some publicly traded companies have 30 to 40 per cent or more of their outstanding common shares held by 7 or 8 pension funds.⁷¹ Private placements of securities, and the "thin" equity market in Canada, have compounded this concentration by placing large blocks of shares under institutional control. Significantly, some major corporate pension funds, and in one instance a consortium of funds, have directly bought into energy companies, as well as having acquired direct ownership of real estate.⁷² Pension funds under the control of dominant financial institutions therefore promote the integration of the industrial, commercial and finance sectors, with a corresponding concentration and centralization of capital. The following identifies and examines some of the specific mechanisms which facilitate this process.

9.4.1 Blue Chip Investment and Intersectoral Integration.

Pension fund investment in the common shares of well-established companies with good earnings records and long-time dividend payments, that is, blue-chip corporations, promotes intersectoral fusion. This investment behaviour is largely attributable to pension funds being risk-averse so as to satisfy the obligation of pension trustees to act in a "prudent" manner to protect the interests of plan members. In order to fulfill the fiduciary requirements of law and practice, pension funds must simultaneously maximize investment return and minimize risk through portfolio

diversification, and are restricted to investing in only those securities which meet certain "quality" tests, such as the payment of dividends over a long period of time.

In practice this effectively restricts pension fund investment to the shares of dominant, stable, and profitable firms in the oligopolistic sectors of the economy. The limited universe of publicly traded corporate shares satisfying these requirements has resulted in pension fund shareholdings being concentrated among a relatively few major companies. The concentration of blue-chip shareholdings by pension funds, in turn, reinforces the penetration of major industrial corporations by financial institutions and the interdependence between the two sectors.

The concentration of pension fund investment in a relatively small number of dominant industrial corporations is well documented. In the United States it is popular to refer to the "nifty-fifty", that is, the 50 most commonly held stocks. These include such corporate giants as IBM, Exxon, AT & T, GE, GM, Xerox and so on. The fact that pension fund holdings are generally limited to the top 50 to 100 corporations out of the 1,550 companies listed on the NYSE in 1983 is an indication of this concentrated share ownership.⁷³ In Canada, pension fund shareholdings are concentrated in 20 of the 872 listed companies, accounting for nearly 50 per cent of the value of the TSE Composite Index.⁷⁴ And in Britain, 68 per cent of pension fund investment is concentrated in the largest companies worth £ 130 million or more.⁷⁵

The integration and interdependence of financial and industrial capital is facilitated through the pension system investment function under advanced capitalism by placing concentrated corporate shareholdings under the control of financial institutions. Concurrently, the pension system promotes the financing of mergers and take-overs, thereby further amalgamating units of capital within and between sectors.

9.4.2 Corporate Finance and the Amalgamation of Capital. The pension system's investment function accelerates the concentration and centralization of capital by supplying firms with liquidity for inter-and-intrasectoral corporate acquisitions, mergers and take-overs. That is, quite literally, the amalgamation of capital units. The late 1960s and 1970s witnessed an unprecedented number of mergers among industrial, commercial and financial corporations in North America and Britain. The pension system has directly and indirectly generated a significant proportion of the required cash for these activities.

The role of the pension system as a source of long-term investment capital and external financing for the corporate sector was examined in Chapter 7. The external financing raised by corporations in securities markets, and increasingly supplied through the pension system, however, is used not only for the purpose of satisfying corporate investment requirements, but also for "intercorporate investment" and an "increase in financial assets". An increasing proportion of corporate funds and external financing is used to promote corporate growth through mergers and take-overs, that is, a concentration or amalgamation of capital, rather than through internal growth.

In the United States the proportion of corporate funds used to finance mergers and take-overs ("increase in financial assets") rose from 9 to 20 per cent between 1960 and 1981.⁷⁶ A similar trend was evidenced in Canada with respect to "intercorporate investment" between 1978 and 1981.⁷⁷ Significantly, intercorporate investment, including resources for mergers and take-overs, was equivalent to 70 per cent of all long-term private non-financial business borrowing raised in securities markets in Canada in 1981.⁷⁸ In Britain, 10 per cent of external finance, that is issues of shares and debentures, was explicitly used for acquisitions by industrial and commercial companies between 1949 and 1953, and

subsequently increased to 73 per cent of issue value in the 1969-1973 period.⁷⁹ Therefore a significant proportion of external financing, and funds generated through the pension system including primary market acquisitions, promote the amalgamation of capital.

Pension funds, especially in Britain and the United States, have been used with increasing frequency as a weapon in corporate take-overs, as well as a means to augment the liquidity position of firms. Pension funds therefore directly accelerate the centralization and concentration of capital, that is, the amalgamation of capital into larger units of production and promote inter-and-intrasectoral fusion. Table 9.3 is a partial survey of reported instances where pension funds have been used to promote corporate take-overs or improve the cash position of firms in Britain, the U.S. and Canada between 1950 and 1982.

Pension funds by tendering their shares have been used as part of a corporate strategy to promote or block take-over bids, in addition to generating liquidity through self-investment ("self-dealing") and spinoff/terminations for mergers. In Britain, Sprey Investments' use of the Imperial Chemical, Unilever and Barclay pension funds for offensive take-over bids, and the notorious manipulation by Slater Walker of pension funds for the same purpose, in addition to the recent rash of "dawn raids" and "sudden death" take-overs, are but some of the better known examples of how pension funds have been used to promote the amalgamation of capital. In the United States pension fund shares were used, for example, by Martin Marietta in the take-over of the Bendix Corporation and by Tactron Inc. in the take-over of KDI Corporation.

Alternatively, pension funds have been used defensively to block take-over bids. In Canada, Royal Trustco bought its own shares through the company pension fund to help thwart a take-over bid by the Campeau Corporation in 1980. Similarly in the U.S., Grumman Aircraft tendered its

TABLE 9.3

USE OF PENSION FUNDS TO PROMOTE
CORPORATE TAKE-OVERS AND LIQUIDITY POSITION,
SELECTED EXAMPLES, U.K., U.S., AND CANADA, 1950-1982

BRITAIN

| <u>Date</u> | <u>Company</u> | <u>Activity</u> |
|-------------|--------------------------------|---|
| 1965-71 | Sprey Investments | Use of Imperial Chemical, Unilever and Barclay pension funds for take-over bids of various companies. |
| 1967 | London Co-operative Society | Self investment - favourable loan from pension fund to LCS. |
| 1973-74 | Slater Walker | Use of Leyland and Standard Triumph pension funds for take-overs, companies then stripped of assets. |
| 1974 | Brooke Bond Liebig | Self investment - favourable terms on loan to Welfare Insurance, formerly a subsidiary of Brooke Bond. |
| 1976 | J. Lyons | Self investment - property subsidiary sold £ 1.7 m of assets to Lyons Pension Trust to improve liquidity position of parent firm. |
| 1977 | J. Sainsbury | Self investment - company a tenant of its own pension fund, accounting for 25% of fund assets. |
| 1977 | Arthur Guinness | Self investment - pension fund deposited £ 100,000 at call with company. |
| 1978 | Eurotherm International | Self investment - loan from pension fund to company representing 68% of total fund assets. |
| 1978 | Lucas Industries | Self investment - over 26% of pension fund invested in parent firm, accounting for 13% of total Lucas equity. |
| 1978 | McKechnie Brothers | Self investment - take-over of Fredrick W. Evans and investment of 15% of Evans pension fund assets in McKechnie shares. |
| 1978 | Ricardo and Company, Engineers | Nearly 25% of pension fund assets invested in parent firm; used as defense against take-over bids. |

| <u>Date</u> | <u>Company</u> | <u>Activity</u> |
|-------------|--|---|
| 1980-81 | Over 40 "dawn raids" and "sudden death" take-overs | Including offensive bids for Amalgamated Power Engineering and Eagle Star Insurance; to block bids at Revertex Chemicals and British Sugar. |

UNITED STATES

| <u>Date</u> | <u>Company</u> | <u>Activity</u> |
|--------------|--|---|
| 1950 to date | Various state and local gov't retirement systems | Self investment and bond swaps. |
| 1981 | Grumman Aircraft | Use of pension fund assets by Grumman to block take-over bid by LTV. |
| 1982 | A&P, J.P. Stevens, Stroh Brewery, Celanese and Reynolds Metal, AMAX and Occidental Petroleum | Over 200 spin off/ terminations to acquire excess cash and reduce merger debts. |
| 1982 | Bendix Corp-Martin Marietta Corp - Allied Corp. | During take-over, Citibank as trustee for Bendix Corp., tendered Bendix shares to Martin Marietta through ESOP. |
| 1982 | U.S. Steel - Marathon Oil Co. | Active opposition by pension funds and investment managers to U.S. Steel take-over of Marathon Oil Co. |
| 1982 | Tactron Inc. - KDI Corp. | Active use of pension funds in Tactron take-over of KDI. |

CANADA

| <u>Date</u> | <u>Company</u> | <u>Activity</u> |
|--------------|---|---|
| 1964 | Canadian Pacific | Acquisition of 18% of Central Del Rio's outstanding shares through CPR pension trust. |
| 1963 to 1980 | Ontario Municipal Employees Retirement System | Self investment - 98% of assets in non-marketable bonds of Gov't of Ontario. |
| Early 1980s | Turbo Resources - Merland Exploration Ltd. | Pension Investment Association of Canada (PIAC) organized opposition to take-over bid. |
| 1980 | Royal Trustco | Used company pension fund to buy its own shares to assist in thwarting take-over bid by Campeau Corp. |

Sources: For Britain Richard Speigelberg, The City: Power Without Accountability (London: Blond & Briggs, 1973), pp. 33-68; Richard Minns, Take over the City (London: Pluto Press, 1982), p. 19; Jerry Coakley and Laurence Harris, The City of Capital (Oxford: Basil Blackwell Publisher Limited, 1983), p. 116; "£ 20 Billion of Pension Funds In Need of Regulation", The Economist, November 4, 1978, pp. 109-115. For the U.S., Daniel Jay Baum and Ned B. Stiles, The Silent Partners: Institutional Investors and Corporate Control (Syracuse: Syracuse University Press, 1965), pp. 69-80; "Hoot and Holler: LTV Drops Its Grumman Bid", Fortune, December 14, 1981, p. 8; Pavan Sahgal, "Who Owns Corporate America?", Pensions & Investment Age, October 31, 1983, pp. 66-67; "Companies Strike It Rich By Tapping Excess Pension Funds", Business Week, November 14, 1983, p. 28; John Howley, "Occidental's Diversification Strategy", Economic Notes, Vol. 52 (March 1984), p. 11 and Robert Tilove, Public Employee Pension Funds (New York: Columbia University Press, 1976). For Canada "C.P.R. And Its Pension Fund", Labor Facts, Vol. XVI (March 1965), p. 13 and Eric Evans, "Pension Funds Make Corporate Waves", The Financial Post, June 25, 1983.

own shares through the company pension fund to block a take-over bid by LTV in 1981. Pension funds actively opposed the take-over bid by U.S. Steel of the Marathon Oil Company a year later. The use of occupational pension funds for corporate take-overs in recent years has become so pronounced that the U.S. Federal Department of Labour "is taking a hard line on corporations using plans in acquiring other companies, or where the fund owns company stock forbidding tendering ... in hostile takeover bids."⁸⁰

Pensions funds have also been used to generate additional internal cash flow for the plan sponsor through self-investment or "self-dealing". That is, where an occupational pension fund has significant shareholdings of the plan sponsor. Sainsbury, Guinness and Lucas Industries in Britain, and public employee pension funds in North America, are prime examples of this questionable practice. Invariably some of this internally generated self-investment is substituted for the external financing raised for intercorporate investment and acquisitions.

An extremely recent and dubious American practice to generate corporate cash flow which indirectly promotes mergers is the "spinoff/termination", or excess asset recapture. A spinoff/termination is the termination of a defined benefit pension plan by a company, which in turn buys annuities to cover pension obligations, and claims the excess cash. Alternatively, some large companies set up a new pension plan for active employees while spinning off retirees and excess assets into a separate plan, which is then terminated so that excess assets can be recaptured by the corporate sponsor.⁸¹ The past two years have witnessed a rash of over 100 spinoff/terminations in the U.S., including such major firms as A & P, J.P. Stevens, United Airlines, Texaco, and Celanese and Reynolds Metals. Nearly \$2.0 billion is estimated to have been recaptured by U.S. corporations through spinoff/terminations.⁸² This practice is now emerging in Britain. While the primary purpose of a spinoff/ termination is

to enhance the cash position of the corporate plan sponsor, the excess cash recaptured is known to have been used for merger related purposes. Occidental Petroleum is a well documented case in point. Occidental Petroleum, the ninth largest energy-based conglomerate in the U.S., purchased the Cities Service Company to expand its domestic oil reserves. Occidental terminated Cities' pension plan, which freed \$400 million. The excess cash from the terminated pension plan was then used by Occidental to reduce the merger debts associated with the take-over of Cities Service.⁸³

The private pension system has been transformed by corporations into a source of external and internal financing to satisfy investment requirements and to promote corporate acquisitions, thereby accelerating the more general tendency towards the centralization and concentration of capital in capitalist economies. The pension system's investment function under advanced capitalism directly and indirectly promotes the integration and amalgamation of industrial and financial capital into an unified nexus of corporate power through systemic and operational mechanisms. The organic unity between the industrial and finance sectors may become even more pronounced and overt in the future as the pension system's investment function effectively promotes a functional convergence between these sectors as institutional investors become more directly involved in corporate affairs.

9.5 Pension Fund Influence on Corporate Affairs: Functional Convergence

Pension funds as institutional investors are increasingly abandoning their traditional role as neutral shareholders and are being compelled to fuse their custodianship role with an active involvement in the management of the corporations in which they invest so as to protect the interests of beneficial owners, that is, pension plan members whom they represent. Pension funds, and other institutional investors, have not only

institutionalized investment and capital markets, they have increasingly facilitated the fusion of financial and industrial capital by influencing corporate behaviour through their concentrated shareholdings. This tendency is propelled, as shall be outlined, by a basic underlying structural dynamic.

The influence of financial institutions on industrial corporations, Hilferding observed as early as 1910, increasingly results in "the banker...being transformed into an industrial capitalist."⁸⁴ A U.S. Senate committee report in 1955 recognized that, "continuation of the rapid increase in stock buying by institutional purchasers may result in financial institutions having a dominant influence over the managerial policies of industrial enterprise."⁸⁵ Harbrecht has argued that

the logic inherent in the objectives of the pension trust...has led...trustees to invest to an increasing extent in corporate stock to obtain...maximum investment yields...The possible control of corporations that may result from this...is of great significance for the structure of ownership and control of property.⁸⁶

In brief, there is a considerable potential for institutional investors and pension funds to exercise control and influence in key sectors of advanced capitalists economies through their concentrated corporate shareholdings.

This underlying logic poses many important and interesting issues with respect to public policy, investment objectives, pension reform, and political strategy regarding the public and private pension systems. In the most fundamental sense the issue that be must assessed is whether institutional investors, and in particular pension funds, have in fact exercised the power associated with share ownership? Or are we witnessing a transition from silent to actual involvement in and control over corporate affairs? Put another way, are institutional investors transforming their ownership of corporate shareholdings into direct control? Ancillary questions and issues must be addressed as well. For example, have pension

funds and institutional investors intervened in the past in corporate affairs? If so, how often, in what ways, and under what circumstances? Is there a discernable trend towards more institutional involvement in corporate decision-making? If so, why? There are significant political implications to these issues.

Pension funds have traditionally adhered to a convention referred to as the "Wall Street rule". That is, pension funds, and other institutional investors, would either abstain from voting their shares, or would support the incumbent management in a proxy fight. If institutional investors were, for some reason, displeased with management or its policies they would, in accordance with this convention, "vote" by selling their shares, rather than actively opposing management policy or attempting to influence it.

There are a number of premises underlying the operation of the Wall Street rule. In the first instance, it is based on the legal requirement of fiduciary responsibility. That is, pension fund investment managers must act in the best interests of plan members so as to maximize investment return subject to reasonable risk. Second, it follows from this that institutional shareholdings in industrial corporations are primarily investments, to be bought and sold, solely on the basis of investment criteria. Third, to the extent that investment criteria are satisfied and the interests of plan members protected, institutional investors do not involve themselves in corporate affairs. Alternatively, should the investment performance of a firm be unsatisfactory, or management policies deemed contrary to the interests of plan members as it affects investment criteria, a pension fund trustee is obliged to divest the shares from the portfolio so as to satisfy his fiduciary responsibility. Fourth, it is argued, institutional investors do not, or should not, become involved in corporate affairs because their area of expertise is investment policy, not corporate management. For all of these reasons it has been suggested that institutional investors

have played an essentially neutral or passive role with respect to involving themselves in or influencing corporate management and have limited themselves solely to acting as rational and prudent investors on behalf of pension plan members.

The Wall Street rule as the dominant view of institutional investor behaviour has assumed the role of a conventional wisdom, thereby masking a considerably more complex reality. In recent years dispute has arisen as to whether institutional investors actually wield the power inherent in their shareholdings, that is, whether they are active-interventionist or passive-non-interventionist investors.⁸⁷ Baum and Stiles, Fitch and Oppenheimer, and Chevalier argue, based on various institutional and structural considerations, that institutional investors are "locked-in" to their corporate investments and that the volume of their shareholdings will compell them to abandon their neutrality. Contrary to this Herman, O'Connor, Perry, Allen and Blumberg, for example, argue that intervention by institutional investors is rare. The fact that there is now a vigorous debate in the U.K., Canada and the U.S. between "hawk" and "dove" pension fund investment managers as to whether institutional investors should play a more aggressive interventionist role ("hawks") or adhere to passive non-intervention ("doves"), in itself suggests that the traditional institutional framework is the process of undergoing a fundamental transformation.

The extent and details surrounding pension fund, and other institutional investor, intervention in corporate affairs is rarely a matter of public record. Such intervention can only be documented in a fragmentary way because these are matters which are done in private. "Intervention by professional investors in the management of ... companies," Spiegelberg has suggested, "is comparable to an iceberg. Only a small part of it is visible... If the top of the iceberg has loomed larger, the iceberg... must have expanded."⁸⁸

Table 9.4 is a partial survey of recorded interventions by institutional investors in corporate affairs in Britain, the United States and Canada between 1949 and 1982. Three trends are discernable. First, intervention by institutional investors, as indicated by these selected examples, can be detected in one form or another as early as the late 1940s in the U.S. and the mid-1960s in Britain and Canada. Second, this information suggests that where pension funds and institutional investors have intervened they have done so with respect to the most fundamental issues related to corporate policy and decision-making - mergers and take-overs, management reorganization, corporate structure, product diversification, payment of dividends, level of retained earnings, corporate capital structure (debt to equity or "gearing" ratio), executive compensation, and institutional representation on board of directors. Intervention by institutional investors regarding such matters goes to the heart of corporate management. Third, the reported incidence of institutional intervention in corporate affairs since the early 1980s would appear to have significantly increased. This information suggests that there is an underlying dynamic compelling intervention by institutional investors in corporate management to defend their investments.

Institutional intervention has and does take a variety of forms. In Britain, Spiegelberg reported how one pension fund manager in the early 1970s "kicked out directors of one company, presented boardroom changes...in the case of another, and forced another company to sell off some of its assets", in addition to refraining from putting another firm into liquidation.⁸⁹ The view of the Wilson Report was that covert institutional intervention in corporate management was increasing in the U.K.⁹⁰ In the United States a Congressional report on commercial bank trust activities concluded that trustee banks influence "the behaviour of large segments of ... U.S. industry."⁹¹

TABLE 9.4

INTERVENTION IN CORPORATE AFFAIRS
BY INSTITUTIONAL INVESTORS,
SELECTED EXAMPLES, U.K., U.S., AND CANADA, 1949-1982

BRITAIN

| <u>Date</u> | <u>Company</u> | <u>Activity</u> |
|-------------|--|--|
| 1965-71 | Sprey Investments | Use of Imperial Chemical, Unilever and Barclays pension funds for take-over bids of various companies. |
| Early 1970s | Vickers Engineering | Management reorganization forced by Prudential Life Insurance Co. |
| Early 1970s | Rank Organization | Institutional opposition successfully blocks entry into brewery business and take-over of Watney Mann. |
| Early 1970s | Hill Samuel | Institutional opposition prevents merger with Metropolitan Estate and Property Corp. |
| 1973-74 | Slater Walker | Use of Leyland and Standard Triumph pension funds for corporate take-overs. |
| 1980-81 | Over 40 "dawn raids" and "sudden death" take-overs | Including offensive bids for Amalgamated Power Engineering and Eagle Star Insurance; defensive bids at Revertex Chemicals and British Sugar. |
| 1982 | Turner and Newell; Rank Organization | Management restructuring forced by Prudential Life Assurance. |
| 1982 | F.W. Woolworth (UK) | Institutional investors and pension funds sell off real estate and implement management reorganization. |

UNITED STATES

| <u>Date</u> | <u>Company</u> | <u>Activity</u> |
|-------------|---|---|
| 1949 | Montgomery Ward | Avery-Wolfson proxy fight. |
| 1954 | New York Central Railroad | NY Central in disfavor with institutional investors because it curtailed dividend. Ensuing Young-White controversy. |
| Mid-1950s | Unidentified | Pressure from life insurance companies on industrial corporations to increase level of retained earnings in order to provide additional security for loans. |
| Late 1950s | Unidentified | Pressure from institutional investors with respect to bank mergers and capital structure of corporations. |
| 1958 | Massachusetts Investors Growth Stock Fund | Voted against management recommendation. |
| 1959 | Bethlehem Steel | Successful pressure from institutional investors to reduce level of executive compensation. |
| 1981 | Grumman Aircraft | Use of pension fund shares by Grumman to block take-over bid by LTV. |
| 1982 | Bendix Corp. - Martin Marietta Corp. - Allied Corp. | During proxy fight Citibank as trustee for Bendix Corp. tendered Bendix shares to Martin Marietta through ESOP. |
| 1982 | Trans World Corp. | Active support of management by pension fund managers Morgan Guaranty Trust and Forstmann-Leff during proxy fight. |

| <u>Date</u> | <u>Company</u> | <u>Activity</u> |
|-------------|-------------------------------|---|
| 1982 | U.S. Steel - Marathon Oil Co. | Active opposition by pension funds and investment firms to take-over by U.S. Steel. |
| 1982 | Tactron Inc. - KDI Corp. | Active involvement by two union pension funds in take-over by Tactron Inc. |

CANADA

| <u>Date</u> | <u>Company</u> | <u>Activity</u> |
|-------------|---|--|
| 1980 | Domtar Inc. and Gas Metropolitan | The Caisse de Dépôt, the investment arm of the Quebec Pension Plan, as a major shareholder has representation on the board of directors. |
| Early 1980s | Turbo Resources - Merland Explorations Ltd. | Pension Investment Association of Canada (PIAC) organized opposition to take-over bid. |
| Early 1980s | Hiram Walker Resources Ltd. | Pension Investment Association of Canada (PIAC) co-ordinated voting against a proxy resolution proposed by management. |
| Early 1980s | Consolidated-Bathurst | Institutions, including the Dominion Bridge pension fund, go to court to prevent "squeeze-out" of Domglas Inc. minority shareholders. |
| Early 1980s | Unidentified privately held companies | Various forms of intervention, including corporate restructuring, in which pension funds have a direct interest. |

Sources: Table 9.3, op. cit.

In Canada a similar trend towards institutional investor and pension fund intervention in corporate affairs is now emerging. In testimony to the 1979 Committee on Mutual Funds, for example, one large fund boldly stated that "we intend to support any move by another corporation to acquire [XYZ] and thereby recoup part of the capital loss... as a result of management... incompetence."⁹² More recently, according to one authoritative business source, "the attitude of [pension] funds towards their role as shareholders is changing. There are strong indicators that a growing number of fund managers are considering becoming more vocal shareholders"⁹³ and are already closely involved in corporate affairs. One Canadian pension fund manager, for example, indicated that there are instances where a "company itself, realizing how much money we have invested in [it]... will [voluntarily] take the first step by giving us information" for investment purposes.⁹⁴ The vice-president of Inco Investment Management Services, which manages one of the major industrial pension funds in Canada, while acknowledging that he doesn't like crossing the line between investment to corporate manager, has stated that he will make "suggestions" and "if the company has good managers, they'll listen."⁹⁵ Carmend Normand, director general of the Caisse de Dépôt, the investment arm of the Quebec Pension Plan (QPP), and the fourth largest financial institution in Canada, has vigorously argued against the Wall Street rule and for more pension fund intervention stating that,

rather than sell the stock when a company has a problem, we prefer to try to help to solve it and keep the investment. In the long run, its better that way. You don't need to control the company, you just need... some representation... and express your views.⁹⁶

The private and public pension systems in recent years are therefore seemingly adopting a more interventionist approach to involvement in the corporate sector through the pension system's investment function.

A structural dynamic propels institutional investors and pension funds towards increased involvement in corporate management, generating a functional convergence between the finance and industrial sectors. At a systemic level pension funds occupy a strategic position in advanced capitalist economies. In the case of Canada total pension fund shareholdings, adjusted for control blocks, accounted for 32 per cent of all shares in 1977 and an average 25 per cent of all equity between 1966 and 1980 (Chapter 7.4.4). In Britain pension funds hold an estimated 42 per cent of all outstanding shares, adjusted for control blocks, and in the United States in the order of 38 per cent. Based on the legal convention that 20 per cent of shares constitutes a "control" position, it is evident that the pension system holds a "dominant" position in relation to the corporate sector. The institutionalization of Canadian capital markets is indicated by a Montreal Stock Exchange study which found that only 22 of Canada's 400 largest corporations were widely-held, compared with 187 companies which involved foreign control blocks, and 162 firms which were controlled by domestic residents or legal entities such as pension funds.⁹⁷ The concentration of corporate share ownership in individual pension funds, as previously discussed, is indicated by the fact that in Canada the 20 most commonly held corporate stocks in pension fund portfolios account for nearly 50 per cent of the TSE Composite Index; pension fund "trading lists" in the U.S. encompass only 50 to 100 major corporations.

The concentration of corporate shareholdings in pension funds generates a convergence of interest between dominant financial institutions and major industrial corporations. Pension funds effectively become "locked-in" to the relatively narrow range of leading corporate investments, limiting the extent of portfolio diversification, available to them to satisfy their fiduciary responsibility. As the demand by pension funds for equity investment has increased, the limited supply of "blue-chip" shares has

resulted in a corresponding concentration of corporate shareholdings among institutional investors. This concentration of shareholdings and lack of portfolio diversification, in turn, increasingly generates pressures which force institutional investors to intervene, in various ways, in corporate affairs. Pension funds as a result of their fiduciary responsibility on behalf of plan members, and the dominant financial institutions which are responsible for the investment management of two-thirds of total pension fund assets (Table 8.16), have effectively acquired a significant proprietary interest in the operation of the corporations in which they have invested. As one pension fund manager put it, the "need for diversification... is going to...force... funds to become more expert in a lot of areas. They will become more critical of how their investments are being operated."⁹⁸ The concentration of shareholdings and lack of portfolio diversification therefore increasingly forces pension funds to "stand and fight... to oppose managements whose actions [are] inimical to shareholder interests" because if "institutional shareholders don't like...management, to whom will they ... sell... shares, and at what price?"⁹⁹

The logic is such that pension funds are increasingly compelled to intervene in corporate affairs in order to protect and maximize their investment. The deteriorating economic climate undoubtedly compounds these underlying structural pressures. As pension funds act "in defense of their investments" they may "take the next step [and] go on the offensive"¹⁰⁰ and become more directly involved in corporate management. Traditionally institutional investors and pension funds have relied upon covert intervention where possible, and have only directly intervened in corporate affairs if necessary so as to maintain "strategic control".¹⁰¹ The available evidence clearly suggests, however, that pension funds in recent years have exhibited an increased propensity to intervene directly in corporate management, as required in various ways,

with respect to both strategic and operational activities (Table 9.4). The evolution or transformation from passive to active investment management may therefore be viewed as a "natural result of the increased economic activity of [pension] funds."¹⁰² The increased involvement by pension funds in corporate management witnessed in recent years may signify a functional convergence between the finance and industrial sectors and a new phase in the evolution of the modern capitalist corporation and the organization of capital.

Under advanced capitalism the impact of pension funds on capital markets as they affect large block trading, the price of securities, the external finance requirements of corporations, and the concentration of corporate shareholdings are all factors which generate forces creating a systemic integration and functional convergence between the industrial and finance sectors resulting in a general fusion of capital. The nexus of corporate power, incorporating the private pension system, is the concrete manifestation of the symbiotic relationship between the finance and industrial sectors. The pension system, through various mechanisms, has accelerated and promoted the fusion of financial and industrial capital into a nexus of corporate power. Private control over pension capital and the operation of the private pension system, with the resultant concentration of economic power, is maintained by a series of mutually reinforcing socio-economic arrangements.

9.6 Private Control and the Operation of the Pension System

The formal structure of pension fund power and the fusion of financial and industrial capital into an interlocking network of corporate power are reinforced by social structure, politics, ideology, and a series of formal and informal linkages between elite groups. Private sector control over pension capital is maintained through these reinforcing structures and mechanisms.

9.6.1 Social Structure and Control. Those who own or control Canada's dominant financial institutions, and have strategic control over pension capital, as part of the network of corporate power, are a small, exclusive, tightly connected group. Only "nine super-rich families or individuals" in Canada hold a "majority, plurality or more than 20 per cent [of shares]...or almost half of the value of the [TSE] 300 index" through their direct or indirect corporate and institutional shareholdings (Table 6.9).¹⁰³ These include Mr Paul Desmarais who heads the Power Corporation complex including Montreal Trustco and Great-West Life, with links to CP Enterprises, and the Bronfman family constellation through Edper Investments which controls Brascan, Trilon Financial Corporation and Royal Trustco, with links to London Life, the Toronto-Dominion Bank and the Bank of Montreal (Figure 9-1). The economic power associated with the private pension system, and the finance sector more generally, resides with a small elite who own or control dominant financial institutions.

In Canada the financial and industrial elites are linked together in a complex pattern of corporate, social and family relationships. In general they share a similar ideology and social background, attend private schools, inter-marry, belong to the same clubs, have shared values and attitudes, and travel in the same social circles.¹⁰⁴ Throughout this network, according to Porter, runs a thin, but nevertheless perceptible, thread of kinship.¹⁰⁵ A case in point is former Prime Minister and Minister of Finance, John Turner, who married Geills McCrae Kilgour, daughter of David Kilgour, former president of the Great-West Life Insurance Company.¹⁰⁶ In brief, "being male, attending Upper Canada College, living in Rosedale and having a wealthy father [opens] the doors to the boardroom."¹⁰⁷ A similar pattern emerges in Britain and the U.S. Major financial institutions in the U.K. are "run by people who are part of the power elite...with their own educational system, recruitment, traditions, relations and links to

government."¹⁰⁸ Research by Whitley and Lisle-Williams indicates that the financial elite in Britain is more socially homogeneous than is the industrial elite.¹⁰⁹ "With increasing economic concentration" in these advanced capitalist economies "the [social] structure has become increasingly closed."¹¹⁰ The social cohesiveness resulting from the informal relationships among the corporate elite reinforces the formal structure of economic power because there is, as a senior vice-president of a financial conglomerate noted in an interview, an "exchange of knowledge based on personal relationships, not business relationships."¹¹¹

9.6.2 Politics and Control. The socio-economic interests of the elite that controls financial institutions and the private pension system is expressed through corporate political behaviour. Financial and industrial corporations are major supporters of mainstream political parties in Canada, Britain, and the United States. These parties ordinarily adhere to a capitalist ideology and generally promote economic policies favourable to the corporate community. The political behaviour of the corporate sector will of course depend upon the concrete particularities of each country's political structure and traditions. The sectoral interests of the private pension industry are promoted and protected by the political activities of dominant financial institutions which act on behalf of the general interests of all finance capital.

In Canada, corporations are major financial contributors to the federal Liberal and Conservative parties.¹¹² Major financial institutions, including trust companies and life insurers which administer and manage pension funds, contributed nearly \$1.8 million dollars to both political parties in the period between 1977 and 1980 (Table 9.5). Banks were the largest contributors, equally endowing the Conservative and Liberals. Trust companies contributed more to the Conservatives, while life insurance companies favoured the Liberals.

TABLE 9.5
CONTRIBUTIONS
BY MAJOR FINANCIAL INSTITUTIONS
TO
CANADIAN POLITICAL PARTIES, 1977-1980

| BANKS | | | |
|--------------------------------|-----------------|----------------------|------------|
| <u>Bank</u> | <u>Liberals</u> | <u>Conservatives</u> | <u>NDP</u> |
| Royal Bank | \$150,000 | \$150,000 | - |
| Can. Imperial Bank of Commerce | 150,375 | 151,747 | - |
| Bank of Montreal | 151,500 | 150,000 | - |
| Bank of Nova Scotia | 144,000 | 140,099 | - |
| Toronto Dominion | 140,000 | 140,000 | - |
| Sub-total | \$735,875 | \$731,846 | - |

| TRUST COMPANIES | | | |
|-------------------------------|-----------------|----------------------|------------|
| <u>Trust Company</u> | <u>Liberals</u> | <u>Conservatives</u> | <u>NDP</u> |
| Royal Trustco ¹ | \$ 28,685 | \$ 23,266 | - |
| Canada Trustco ¹ | 1,078 | 16,200 | - |
| Montreal Trustco ¹ | 8,925 | 10,268 | - |
| Canada Permanent | 31,028 | 800 | - |
| National Trust | 15,056 | 15,056 | - |
| Sub-total | \$ 84,772 | \$ 65,590 | - |

| LIFE INSURANCE COMPANIES | | | |
|--------------------------|-----------------|----------------------|------------|
| <u>Life Company</u> | <u>Liberals</u> | <u>Conservatives</u> | <u>NDP</u> |
| Sun Life | \$ - | \$ - | - |
| Manufacturers Life | 20,696 | 19,000 | - |
| Great West Life | - | 20,476 | - |
| London Life | 27,500 | 28,295 | - |
| Canada Life | 14,000 | 14,000 | - |
| Sub-total | \$ 62,196 | \$ 81,771 | - |
| GRAND TOTAL | \$882,843 | \$879,207 | - |

Note: 1. Name change.

Source: Calculated from the Chief Electoral Officer, Registered Party Fiscal Period Returns (Ottawa: n.p., various years.)

What is of interest, based on this information, is the fact that total contributions from the finance sector were nearly evenly distributed between the federal Conservatives and Liberals. While individual corporations may have a political preference, it is clear that the finance sector as a whole feels equally comfortable with either political party, since both represent and promote the same business interests. A 1983 survey indicates that both industrial and financial corporations "over time, give

equally to both major parties."¹¹³ This seeming "neutrality" suggests that in Canada the corporate sector as a whole expects equal consideration and treatment from either political party, regardless of which is in power.

The political behaviour of British corporations stands in marked contrast to that exhibited in Canada. Corporate donations to political parties in Britain, a far more overtly class conscious and polarized society than Canada, is ideologically less oblique. Simply, there is massive political support by the corporate sector for the Conservative Party. Between 54 to 80 per cent of all corporate political donations were directed to the Conservative Party between 1977 and 1983. Nearly 70 per cent of banking, insurance and finance sector political contributions went to the Conservative Party, accounting for 26 to 35 per cent of all corporate donations to the Tories between 1974 and 1983.¹¹⁴ These contributions come from such major financial and banking concerns as Consolidated Goldfields, Wills Faber, Hambros, and the Hill Samuel Group. Political contributions from banks and insurance companies, that is, major pension fund managers, are greater than their size on the stock market. In Britain there is no pretense of ideological or political neutrality by the corporate sector and financial institutions in defense of their interests.

9.6.3 Influence and Control. The corporate, political and bureaucratic elites are a network of small groupings interlocked by a high degree of cross-membership, based on formal and informal linkages, who share a similar world view. "A confraternity of power develops" between the political, bureaucratic and corporate elites, according to Porter, "and this in turn is reinforced by kinship...class" and ideology.¹¹⁵ The interests of financial capital and the private pension industry are strengthened through political and bureaucratic linkages as well as mobility between the private sector and government.

9.6.3.1 Private Sector-Political Links. Political representatives in Canada, Britain and the United States at the national level have generally come from high socio-economic status backgrounds.¹¹⁶ Britain is an interesting case in point under the current Conservative government. Conservative MPs in 1979 were, not unexpectedly, primarily drawn from the business world: 23 per cent had a management and executive background, while 17 per cent were lawyers. Significantly, another 18 per cent of Tory MPs had occupations broadly associated with the private pension industry: management consultants (5 per cent), merchant bankers (5 per cent), insurance brokers and underwriters (3 per cent), stockbrokers (3 per cent) and accountants (2 per cent).¹¹⁷ Overall, 339 Conservative MPs held 475 corporate directorships, including 44 who are members of Lloyds, the insurance brokers. In addition, Conservative MPs held 42 consultancies with 29 of the top 300 industrial firms, including 15 consultancies and 8 directorships with life companies, banks and pension funds.¹¹⁸

Similar linkages between the private sector and government exist in Canada. For example, when John Turner reentered public life after a nine year hiatus to become Prime Minister (June-September 1984) he held at least ten corporate directorships, including Canadian Pacific Ltd., Crown Life, Credit Foncier and the Canadian Investment Fund Ltd. The new Conservative Prime Minister, Mr Brian Mulroney (September 1984), in addition to being President and Director of the Iron Ore Co. of Canada and the Quebec North Shore and Labrador Railway, sat on at least eight corporate board of directors, including the Canadian Imperial Bank of Commerce.¹¹⁹ Mobility from the private sector to government serves the general interests of the business community, including the finance sector, as does mobility from active politics to the private sector.

9.6.3.2 Political-Private Sector Links. In Canada there is considerable mobility from the political elite to financial institutions

related to the operation of the private pension industry.¹²⁰ At the federal level, for example, when former Liberal Prime Minister Lester Pearson retired he took a position on the board of directors of Crown Life Insurance Company (1972), as did former Minister of Finance John Turner after he left Cabinet in February 1976. Mr Louis Raminsky, former head of the Bank of Canada, was listed as a director of Canada Trust (1978).

According to reliable sources "more than half of Canada's senators [spent] part of their time acting on boards of directors" in 1977.¹²¹ For example, Mr Salter Hayden, chairman of the influential Senate Committee on Banking, Trade and Commerce for 27 years was an honorary director of the Bank of Nova Scotia, while two other senators on the same committee were also directors of trust companies. As well, Senator Hays was on the board of Canada Permanent. Other political-finance industry linkages include Senator Louis Beaubien who is on the boards of five insurance companies and one trust company, Senator Hartland MacDougall who was a vice-president and director of the Bank of Montreal, and Senator Paul Desruisseaux who served as a director of the Royal Bank. An analysis of 1983 trust company annual reports indicates that Senators Riel and Belfour are on Royal Trustco's board, while Senator Lewis is on the board of Canada Permanent.

Linkages and mobility between Canada's provincial governments and the finance sector are similarly impressive. John Roberts, former Conservative Premier of Ontario, retired to 13 seats on various boards of directors, including Power Corporation, Metropolitan Life and the Canadian Imperial Bank of Commerce.¹²² The Honourable Jean Lesage, former Liberal Premier of Quebec, became a member of Montreal Trust's board of directors. The Honourable E.C. Manning, former Premier of Alberta was a director of the Canadian Imperial Bank of Commerce and Manufacturers Life. Robert Stanfield, former Premier of Nova Scotia and Leader of the

federal Conservative Party is currently listed on the board of Canada Life (1983). What is of some interest, based on Olsen's data, is that while over 50 per cent of provincial Cabinet Ministers had pre-political occupations related to business, only 2 per cent had backgrounds connected with the insurance industry. This compares with Orren's study which found that nearly 20 per cent of Illinois state representatives and senators between 1961 and 1968 were associated with the insurance business.¹²³ This suggests that financial capital in Canada works through federal political and bureaucratic structures to protect its interests. Political contributions by financial institutions to federal political parties and mobility between the finance sector and the political apparatus therefore reinforce the influence and economic power of the corporate network. Bureaucratic linkages to and from the finance sector strengthen this relationship.

9.6.3.3 Bureaucratic-Finance Sector Links. Porter has argued that the link which bypasses the political process is more effective for the business community.¹²⁴ This suggests that the ideal connection between the private pension industry and the state may be through the bureaucracy at various levels. This is because government "bureaucrats, like the specialists of the business world," Olsen observed, "seem to share a common ideology concerning their right to rule."¹²⁵ Any number of studies have demonstrated the relationship and affinity between the corporate elite and senior bureaucrats as it generally affects government decision-making and the formulation of public policy. Little data, however, exist with specific reference to bureaucratic-pension industry links. Therefore only selected and isolated examples can be cited.

With respect to Britain, Titmuss argued as early as 1959 that "the great insurance corporations and pensions...will recruit to their inter-locking directorates and consultant ranks...from the universities [and] the civil service."¹²⁶ The private pension industry recruited senior

bureaucrats from the Ministries of Pensions and National Insurance as well as from Inland Revenue. One senior government official became the executive chairman of the Society of Pension Consultants which was formed to present the views of the pension industry to government. This mobility between the state bureaucracy and the private pension industry could only exist if similar views were shared with respect to the operation of the private pension system.

In Canada, at the federal level, two interesting examples may be cited. The former federal Superintendent of Insurance, Richard Humphry's, worked for the Great-West Life Insurance Company in 1939, and went to the Department of Finance (1940) before assuming the Superintendent's position. In addition, he was past-President of the Canadian Institute of Actuaries. Mrs Beryl Plumptre was the wife of A.F.W. Plumptre, a high ranking member of the Ottawa bureaucratic elite.¹²⁷ She subsequently went on to a number of important appointments in government. Mrs Plumptre is listed as being on the board of directors for Canada Permanent (1979) and Canada Life (1983). At the provincial level the Superintendents of Pensions, that is, those who are responsible for the regulation and monitoring of the private pension industry generally have a private sector background and orientation. Linkages and mobility between the financial, political and bureaucratic elites complements the formal structure of corporate and pension fund power. This is reinforced by the dominant market ideology.

9.6.4 Ideology and Economic Control. Ideology plays an important role in the formulation of social security policy (Chapter 3.3) and is a boundary affecting the control and operation of the private pension system within the broader framework of a capitalist economy. At a global level ideology serves to legitimize prevailing social and economic structures

and their functioning in order to maintain social cohesiveness and stability.¹²⁸

In a capitalist society the market ethos is the dominant ideology which governs socio-economic arrangements. The market ethos as the dominant value system is, to use Gramsci's term, an "ethico-cultural hegemony". Hegemony is

a socio-political situation...in which the philosophy and practice of a society fuse or are in equilibrium; an order in which a certain way of life and thought is dominant...[and] is diffused throughout society in all its institutional [forms]...with its... taste, morality, customs, religious and political principles, and all social relations...An element of direction and control, not necessarily conscious, is implied.¹²⁹

A society's stability and equilibrium is a reflection of the penetration and internalization of hegemonic social values by classes and individuals.

"The ruling ideas" or ideology "of each age", Marx and Engels suggested, have "been the ideas of its ruling class."¹³⁰ The global properties associated with and incorporated into the hegemonic market ideology of a capitalist economy include the private ownership of the means of production, private control and direction of investment, the sanctity of contract, and production for profit, rather than for use. The corporate elite that own and control dominant financial institutions, including strategic control over pension capital, share a similar world view or ideology. They have shared "habits of thought and action, common sets of values [and] beliefs" and "hold assumptions so deeply that they communicate through raised eyebrows and shared silences" because "they think the same way naturally."¹³¹ Those within the "higher circles" have "little need to conspire" and "have few conflicts of interest because their broad interests seldom conflict."¹³² The assumption and outlook shared by the corporate elite, according to Alfred Powis, president of Noranda Mines, is "the same attitude toward profit".¹³³

The market ethos explicitly and implicitly governs the operation of the private pension system. It follows that the primary purpose of private pension industry at a micro-economic level is to be profitable, rather than satisfying the elderly's need for retirement income. The private pension industry, controlled by dominant financial institutions, is big business. As one study concluded

when a bank says that its objective is to maximize the return on investment of its pension fund assets, what it... means is to maximize...[the] objective of making money for the bank itself... The fact is that the banks are not the instrument serving the fund. Rather, the [pension] fund is the instrument serving the banks.¹³⁴

The private pension industry is a profitable business. In Canada, for example, fees and commissions to the top five trust companies for managing trustee pension arrangements accounted for an average 35 per cent of pre-tax income in 1983, ranging from 15 to 64 per cent of net income before taxes, depending upon the company.¹³⁵

The market ethos as the dominant ideology legitimizes the existence and operation of the private pension system. Central to the contemporary regulatory framework for the private pension industry are the legal concepts of "fiduciary responsibility" and the "prudent man" rule as previously elaborated upon.¹³⁶ The purpose of these requirements are to ensure the safety of pension fund assets and plan benefits. As such, the notions of "fiduciary responsibility" and the "prudent man" rule serve critically important ideological and economic functions.

Ideologically these requirements legitimize the impression that pension funds are managed safely in the interests of plan beneficiaries. As one study concluded, however, "Safety is a pseudo policy. Preservation of revenue and profitability are [the] genuine ones. In practice the goal of safety... has served as a protection and... mystification for the status quo."¹³⁷ In reality, then, these notions serve to ideologically obscure the universal limitations of the private pension system, described in Chapter 4,

and the investment and capital accumulation function performed under conditions of contemporary capitalism described in Chapter 6.

In terms of economic function these legal stipulations on the operation of the private pension system serve to maintain the pattern of pension fund investment in major industrial corporations, and the corresponding concentration of shareholdings, with the resultant fusion of industrial and financial capital into the corporate nexus of power. This has effectively resulted in "legislated capitalism"¹³⁸ and has secured private sector control over pension capital. Thus, fiduciary responsibility and the prudent man rule, intended to protect the interests of pension plan members and beneficiaries, have become a way in which to ideologically legitimize the structure of pension fund power and the operation of the private pension system in the interests of the corporate sector and financial elite.

The private pension system as the fastest growing pool of capital in advanced capitalist economies is organically related to the finance sector. The pension system's investment function as an integrative mechanism facilitates the fusion of industrial and financial capital, increasingly resulting in a systemic integration and functional convergence between the two sectors. Politics, ideology, social background and various formal and informal linkages between the financial, political and bureaucratic elites all complement and reinforce the formal structure of pension fund power described in Chapter 8 and integrate it into the broader nexus of corporate power under advanced capitalism.

9.7 The Pension System and the Nexus of Corporate Power: Implications

There are a number of broad social policy and political implications which result from the relationship between the private pension system and the nexus of corporate power. First, the structure of pension fund power, described in Chapter 8, and its integration into the corporate network under conditions of advanced capitalism, represents a considerable

concentration and centralization of private economic power. The power of the private pension system and industry, based on its now manifest investment and capital accumulation function, described in Chapter 6, is grounded in the fundamental socio-economic structures of a capitalist political economy. In the final analysis the institutional strength and economic power of the private pension system rests on the private control and direction of capital and investment in the interests of the corporate sector. "The organized concentration of control over the 'economic surplus'", Titmuss argued, "represents a primary source of power in our society."¹³⁹

By serving the broad intests of organized capital at the macro-and-micro-economic levels the private pension industry ensures its own survival because the corporate sector needs the private pension system to organize and channel investment capital. The private pension industry is a profitable business. The inadequacies of the private pension system, described in Chapter 4, exist because reform of the private pension system would result in increased labour costs to the industrial sector and a relatively less profitable private pension industry. Private pension reform neither serves the interests of either the finance or industrial sectors. Conversely, expansion of the public pension system is a direct threat to the existence of the private pension industry, the level of capital investment flowing through the private pension system to the corporate sector, and would represent a fundamental challenge to private sector control over and direction of investment and capital accumulation.

This suggests that there will be a dual political response from the corporate sector with respect to pension reform. In the first instance, as suggested by Bottomore,

the evident division of the elite into divergent interest groups at one level does not preclude the existence at another level of important common interests... which tend to produce a uniformity of outlook and action on fundamental issues of social policy.¹⁴⁰

And "it is over the subject of pensions," according to Baum, "that disparate interests converge."¹⁴¹ This is because the private pension system is structurally and ideologically related to investment, capital accumulation and profit levels, thereby affecting the general interests of the corporate sector and the specific interests of the pension industry. This suggests that the private sector will be the major obstacle to pension reform. The private sector if forced by circumstance to choose between either private or public pension reform may be expected to make the necessary minimal accommodations to keep the private pension system intact so as to forestall expansion of the public pension system.¹⁴²

Second, reform of the pension system is a political issue. It is a political issue because if pension reform is to be successful the institutional power of the private pension industry must be confronted by the main parties of interest - the elderly, workers and unions. To the extent that the private pension industry continues to operate on the basis of market criteria suggests that it will remain a "capitalist trap"¹⁴³ for the majority of workers and elderly, as evidenced by the current limitations of the private pension system and the low income of the elderly (Chapters 2 and 4).

Third, the role of institutional investors in general, and the private pension system in particular cannot be ignored. Their activities affect everyone and influence the direction of advanced capitalist economies. Leaving that type of economic power in private hands without public control and accountability is the hallmark of what Titmuss called "the irresponsible society".¹⁴⁴ The institutional strength of the pension system and its relationship to the industrial sector is in fact its weakness. This is because the investment function intrinsically related to the operation of the occupational and state pension systems render them vulnerable to alternative economic strategies to promote social change.

The pension system in general has resulted in the socialization of savings and investment. The occupational pension system's investment

function has, in turn, facilitated the interpenetration and interdependence of the finance and industrial sectors. Consequently, the private pension system in advanced capitalist economies now occupies a position of potential strategic control in relation to the industrial sector as a result of its concentrated corporate shareholdings. There are already indications that pension funds are becoming more assertive in exercising their proprietorial rights through their shareholdings and are increasingly intervening in corporate affairs (section 9.5). At a micro-economic or sectoral level this may provide unions with an opportunity to develop various strategies with respect to the co-management of pension funds (Chapter 5.5), industrial democracy, and alternative strategies for the economic reorganization of industry. The investment function associated with the operation of the state retirement income system could similarly be used to satisfy a multiplicity of socio-economic objectives. An expanded public pension system would be able to generate an adequate retirement income for the elderly and, depending upon the level of funding, could serve as a countervailing force to the power of private institutional investors by accumulating an investment fund at the macro-economic level for alternative economic strategies.

The investment function underlying the operation of the public and private pension systems is an unique mechanism with which to socialize key sectors of advanced capitalist economies as a result of the pension system's interpenetration of the industrial sector. The pension system's investment in and concentrated shareholdings of dominant corporations place it in a strategic position to exercise control over the industrial sector, investment and capital formation. Keynes clearly foresaw the need for "a somewhat comprehensive socialization of investment"¹⁴⁵ to maintain aggregate demand, employment and economic growth within the existent capitalist framework. Alternatively, pension funds as Titmuss suggested,

are "a power, a potential power to affect many important aspects of our economic life" and might be utilized to develop "forms of public ownership, public responsibility, and public accountability."¹⁴⁶ Whether this potential is realized will depend upon the politics of pension reform and the use of pension funds to promote progressive strategies for social change.

CHAPTER 10

CONCLUSIONS: THE PENSION SYSTEM AND STRATEGIES FOR SOCIAL CHANGE

"The masses of capital amalgamated by centralization...become new and powerful levers of social accumulation."

Karl Marx

"Marxism is a guide to action not a dogma."

Frederick Engels

10.1 Introduction

This study has suggested that the political economy of pensions, and the interaction of its constituent elements, has an internal dynamic generating a series of structural conflicts or contradictions which may potentially result in the politicization of the pension issue. The pension issue affects the vital interests of capital, labour, the elderly and the state with respect to capital accumulation, the industrial relations system, private and public sector finance, and the economic security of workers and the increasing proportion of the aged. The pension issue identifies and impacts upon the most fundamental economic and power relationships in capitalist economies, suggesting that it may be turned into an ideologically defined political issue in the future. Within this context, the pension system - public and private - may be used as an instrument to promote progressive strategies for social change.

The purpose of this chapter is to report, analyze and assess directed or alternative investment strategies based on the operation of the state and occupational pension systems as they might affect and be related to strategies for social change in the future. An analytic or typological

distinction is made between macro-strategies pursued through the state pension system and micro-strategies based on the occupational pension system. These strategies are a natural concomitant of the operation of the pension system as a result of its strategic position in advanced capitalist economies. Directed investment strategies based on the pension system are progressive at this historical juncture, it is suggested, because they are an attack on organized capital at the macro-and-micro-economic levels and challenge private control over the direction of investment and capital formation. It is suggested that the pension system is one means by which to establish public control and accountability over investment, the industrial sector and capital accumulation.

Strategies for social change based on the operation of the pension system are, in turn, examined from a Marxist perspective and related to the transition from capitalism to socialism. It is argued that the use of the state and occupational pension systems to advance alternative investment strategies is consistent with and corresponds to one model of social transition envisioned by Marx, that is, the "pattern of competing systems" and "encroaching control" based on the socialization of the economic surplus. From a political perspective, directed investment strategies through the state pension system may identify issues related to state power and public control over investment and economic planning, whereas social investment strategies based on the occupational pension system may raise issues related to industrial democracy. Strategies for social change based on the pension system may therefore be incorporated into a broader socialist program. The politicization of the pension issue, and pension reform formulated as a radical demand, may ultimately stretch the limits of economism and welfarism, thereby facilitating the transition to socialism.

10.2 The Funding Debate and Directed Investment Strategies

The funding debate and alternative investment strategies have been recurring themes in twentieth century social security history¹ and assume a contemporary relevance because the pension system now occupies a strategic position within advanced capitalist economies. The investment function underlying the operation of the pension system affects savings, investment, capital accumulation and the control of corporate shareholdings. This suggests that the pension system may be used to promote the public interest and strategies for social change. An expanded state pension system, with a high level of advanced funding, as shall be demonstrated, would serve a multiplicity of purposes and promote the public interest by providing adequate retirement income for the future elderly, reduce potential intergenerational and sectoral tensions, serve as a "countervailing" force to the private economic power of institutional investors, generate an investment fund for capital formation under public control and might, depending upon political circumstances, result in the socialization of key sectors of advanced market economies.

The funding or financing of the state social security retirement system is closely related to such macro-economic considerations as the necessary level of contributions required to support the benefit structure, taxation, the impact on capital markets, ownership of corporate securities, the size of investment fund accumulated and overall investment strategy. It must be emphasized that the method of funding a national retirement income system is a separate and distinct issue from how the investment fund is used. The method of social security financing is important, however, in that it determines the size of the fund being accumulated for investment purposes. To the extent that a social security investment fund is accumulated in turn poses the question of investment strategy and the purpose for which the fund is accumulated. Thus the method of social

security financing, fund size and investment objectives are inter-related issues.

The way in which a national retirement income system is financed is related to directed investment strategies because the method of funding will affect the size of the fund accumulated for investment purposes. On this subject the International Labour Organization was to state that the

allocations to technical reserves and/or contingency funds are...[the] difference between receipts and expenditure, if the figures...are relatively high this may indicate the degree to which the [state pension] system contributes to national savings and the capital formation of the country - depending, of course, on how the amounts concerned are utilized, for instance whether they are spent by the State...to meet current expenditure or whether they are in fact placed in productive investments in the interest of the national economy.²

Because "funding and investment go hand in hand in pension planning",³ the method of funding is an important determinant with respect to generating an investment fund (where contributions exceed benefits) in order to pursue an alternative or directed investment strategy to satisfy socially productive objectives through the state pension system.

The method of funding, or financing, public and private pension plan arrangements is related to the security of benefits, the level and stability of contributions, intergenerational transfers or equity, and the need for capital. Funding methods differ considerably between public arrangements and employer-based occupational pension plans. Occupational pension plans are usually fully funded in advance so as to guarantee the payment of benefits to plan members. Advanced funding ensures that if a plan were terminated it would be able to meet its commitment to beneficiaries and plan members for all accrued (earned) benefits. The state pension system, however, does not necessarily have to be funded on the same basis as employer-sponsored plans since government, in theory, exists "in perpetuity" and is the ultimate guarantor of benefits based on its

"unlimited" taxing powers. While some have suggested that "trust funds are unnecessary for a government pension plan, and are established on the basis of a false analogy with private plans",⁴ others have argued that "there is an extra element of danger that the generation facing the [pension] bill may ... resist paying it" and the "future ability to pay is by no means certain or unlimited."⁵

The advantages and disadvantages of funding a national retirement income system are compared in Table 10.1. Despite traditional welfare state adherence to PAYGO financing, where "tomorrow's young will in turn pay for tomorrow's old",⁶ it is now increasingly recognized that pension promises "cannot absolutely bind successor governments"⁷ as a result of current economic, political and demographic realities. Thus a degree of funding may be required to protect state pension entitlements.

Funding refers to any systematic schedule of contributions based on long-term pension commitments. There are three alternative methods of funding state pension arrangements, each with their respective advantages and disadvantages.⁸ These funding arrangements represent a continuum with respect to formal actuarial standards.⁹ Pay-as-you-go (PAYGO) funding refers to retirement benefits which are financed from current contributions so that contributions are equal to benefits. This results in each generation paying for the cohort which precedes it. For a national pension system operated on a PAYGO basis, a contribution rate would be set each year (or for a number of years) based on expected earnings and benefit levels in that year (or those years). Pension systems financed on a PAYGO basis, while unaffected by inflation, are unfavorably influenced by demographic shifts and recessionary conditions. Most, but not all, welfare state national retirement income systems since World War II have operated on a PAYGO basis.¹⁰

Alternatively, national retirement income systems may be advanced or pre-funded, that is where each generation pays for the value of

TABLE 10.1
THE FUNDING DEBATE

The Case Against Funding

- A national retirement income program should be considered a transfer between generations, rather than a savings plan.
- Intergenerational equity can not be established simply by funding pension plans, but must be placed within the total legacy passing from one generation to another.
- If society wishes to increase saving, considerations of social equity suggest that the basis for deferring consumption should be more selective and progressive than would be appropriate for pension financing. This would depend on the progressivity of the contribution structure.
- Although large funds may be accumulated through pension arrangements, saving on such a scale and in such a form may be inappropriate. By restraining consumption at a time when demand is weak may result in diminishing investment and economic growth during a period when there is already capacity underutilization.
- A large fund may pose investment problems. A large fund may result in a concentration of financial power under government control that might squeeze-out private investment.
- PAYGO results in the lowest short-run contribution level.
- A fund or reserves are not necessary because government exists "in perpetuity" and has infinite resources based on its taxing power.

The Case For Funding

- Funding leads to relatively stable contributions since each generation "pays its own way". PAYGO rates, which varying with changes in the proportion of elderly, are likely to be unfair between generations.
- Funding would eliminate the regressivity associated with current contribution rates, under which high-income earners receive a larger wealth transfer from the next generation of workers than do low-income earners.
- Funding insures that the pension "contract" between the contributor and the government of the day is honoured. There is no guarantee that future governments will honour pension promises made by previous governments unless paid for. A number of Western European countries and the U.S., which are funded on a PAYGO basis, have experienced financial difficulty and have allowed their benefits to be eroded in various ways.
- Funding promotes intergenerational equity, in as much as each generation is required to forgo consumption equivalent to the estimated value of the pensions it has promised itself. From a financial perspective, a separate fund exists to pay benefits, so that future generations will not be required to meet any part of the cost of paying pensions to earlier generations. Economically, the fund helps to ensure that no decline in the rate of saving per worker, and hence in the accumulation of capital stock per worker, occurs because of pension promises.
- PAYGO funding, or a low degree of partial funding, encourages demands for increased benefits since it under-values the true cost of pension benefits so they are perceived of as "free goods".
- Funding provides a source of capital accumulation which could be used to finance industrial revitalization and an industrial strategy.
- An investment fund under public control could serve as a countervailing force to private institutional investors.

Source: Adapted from the Report of the Task Force on Retirement Income Policy, The Retirement Income System in Canada: Problems and Alternative Policies For Reform (Hull: Canadian Government Publishing Centre, 1980), pp. 292-293.

its own benefits. Two advanced funding methods exist: full-cost (partial) funding and full-funding. Full-cost or partial funding is that contribution rate which generates sufficient contributions and interest during a "typical" person's working years to pay for expected retirement benefits excluding the unfunded liability. The full-cost contribution rate will create a moderate investment fund during the time contribution levels exceed those required for benefit payments. Full-funding is that contribution rate which will provide sufficient assets to cover the value of accrued benefits under the plan plus the unfunded liability. Pension systems based on full-funding are immune to demographic shifts because each generation pays for the value of its own benefits, but are sensitive to inflation. The full-funding contribution rate will generate a significant fund through contributions and interest thereon.

The contribution rate required to support the national pension system is determined by the degree of funding, level of benefits, and the underlying demographics. Each of the funding methods discussed above - PAYGO, full-cost and full-funding - entails a progressively higher contribution rate. Under the "baby boom" demographic scenario, discussed in Chapter 3, the full-funding contribution rate is usually higher than the full-cost rate due to the need to service the unfunded liability. In the short-term the full-cost rate may be higher than the PAYGO rate, but the PAYGO contribution rate associated with welfare state pension arrangements will exceed the full-cost rate in the long-run. A comparison of PAYGO and full-funding financing methods is outlined in Table 10.2. Figures 10-1 and 10-2 graphically present the short and long-term cost implications of these funding methods under alternative demographic scenarios.¹¹

The extent to which the contribution rate is set above the PAYGO rate, as well as the speed with which contribution levels are increased, will

TABLE 10.2
COMPARISON
OF
PAYGO AND FULL-FUNDING FINANCING METHODS¹
FOR THE STATE PENSION SYSTEM
UNDER "BABY BOOM" DEMOGRAPHIC SCENARIO

| Criteria | PAYGO | Full-Funding |
|---|---|---|
| Security of Benefits | Note Table 10.1 | Note Table 10.1 |
| Level of Contributions | | |
| Short-run | Less than full-funding rate | Greater than PAYGO rate |
| Long-run | Greater than full-funding rate | Less than PAYGO rate |
| Stability of Contributions | | |
| Short-run | Increasing over time | Level over time |
| Long-run | Increasing over time | Level over time |
| Intergenerational Transfers | Large intergenerational subsidies and transfers | Intergenerational subsidies and transfers minimized or eliminated |
| Fund Size and Capital Accumulation | No investment fund accumulated since contributions equal benefits | Significant investment fund generated since contributions plus investment earnings exceed benefit payout until maturity. |
| Phase-in of Contributions and Fund Size | | |
| Short Phase-in | Creates a small fund in short-run by that amount in excess of required PAYGO rate; but PAYGO < FF rate. | Maximizes fund size in short-run by moving immediately to full-funding rate; because FF > PAYGO rate results in larger fund than in PAYGO case with short phase-in. |
| Long Phase-in | No fund created over long-term because contributions equal benefits (C = B) | Size of fund over long-term reduced, but a large fund still created because FF > PAYGO rate until maturity. |

1. The full-cost (partial) funding method would be an intermediate case.

FIGURE 10-1
Comparison Between Short and Long-Term
Full-Funding and Pay-as-you-Go (PAYGO)
Social Security System Contribution Rates
Under Alternative Demographic Scenarios

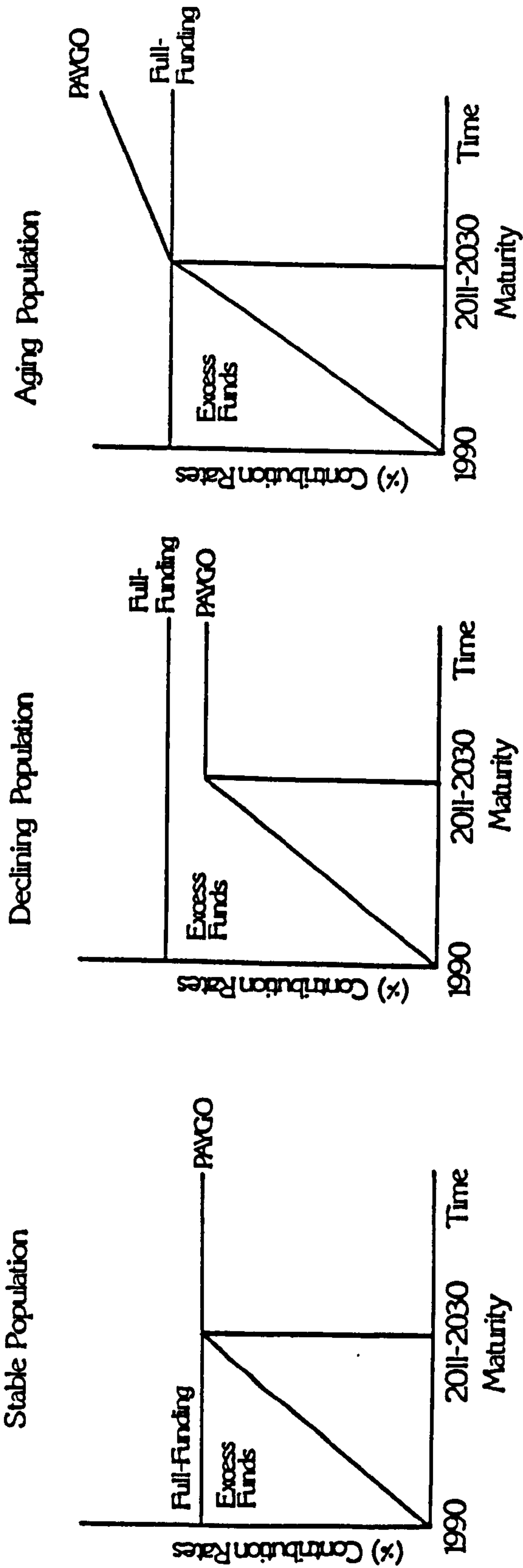
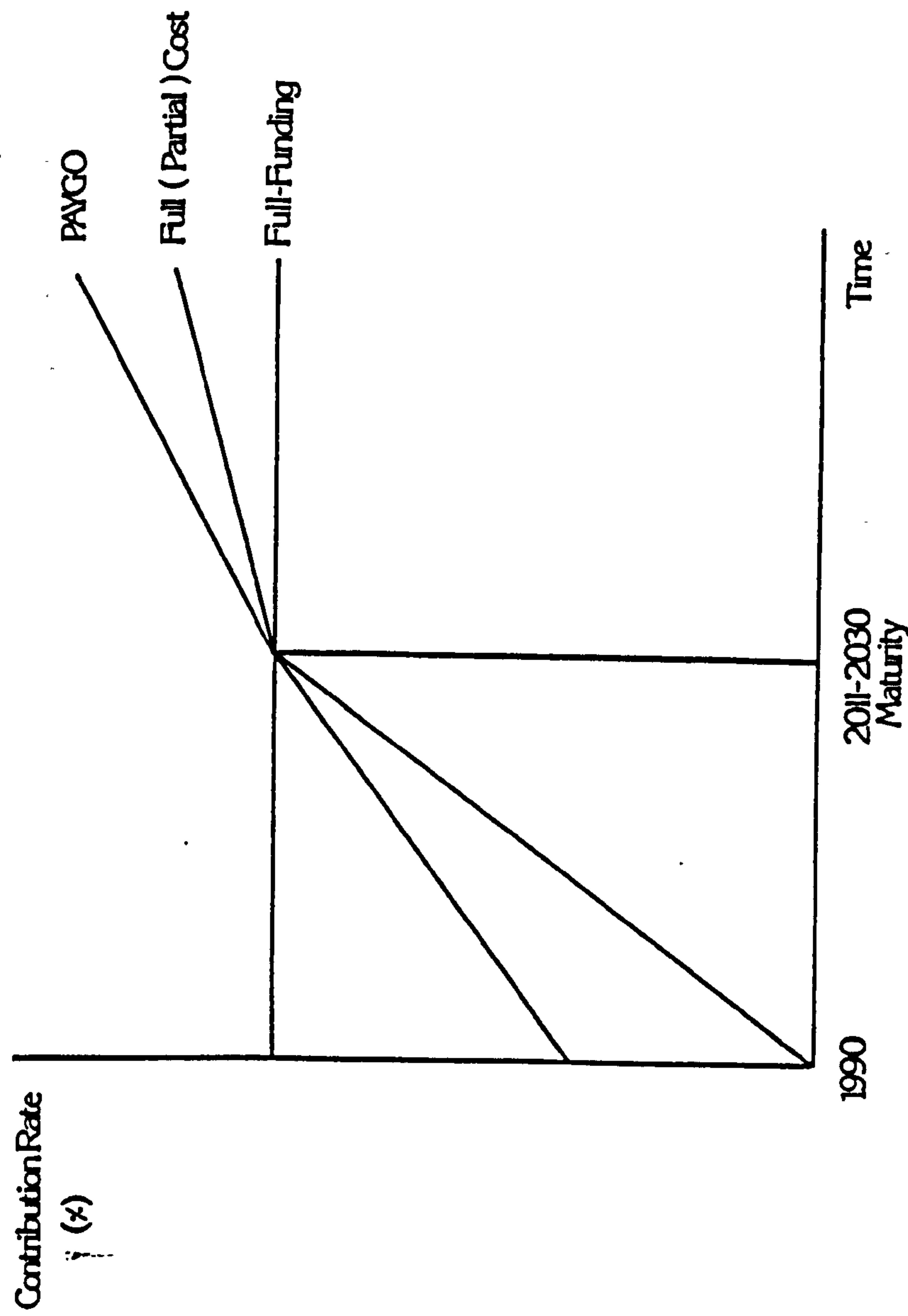


FIGURE 10-2
Comparison of Social Security System Contribution Rates Under
Alternative Funding Methods, Aging Population Scenario



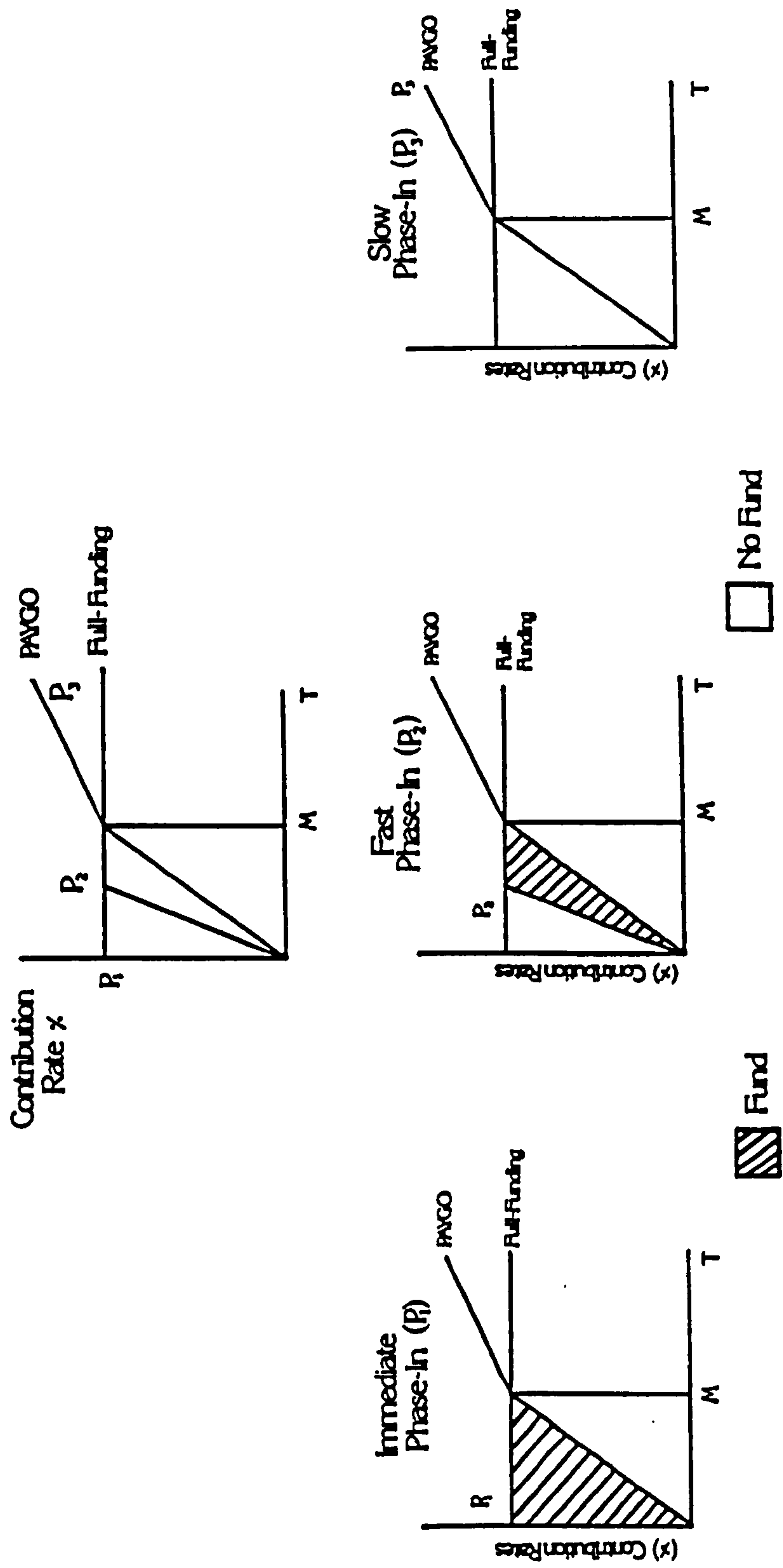
determine the size of the investment fund. The magnitude of the investment fund therefore is a function of the contribution level which, in turn, is related to the method of funding. The more rapidly the new contribution rates are phased-in to finance improved benefits, the larger the size of the investment fund. A long phase-in period for contributions would minimize the size of an investment fund, whereas a short phase-in would result in a rapid build up of a reserve for investment. By way of example, a PAYGO system with a long phase-in would result in virtually no investment fund, whereas a full-cost or fully-funded system with a fast phase-in would generate a significant fund until benefits are paid at maturity. Figure 10-3 graphically reports the relationship between funding method, contribution phase-in and fund size.

The advantages associated with the advanced funding of a national retirement income system, outlined in Tables 10.1 and 10.2, have lead some progressive governments to the conclusion that, if

— a major confrontation between generations... is to be reduced... there is an immediate need to set in place mechanisms to ensure that the active work force, and employers on their behalf, save more for their own retirement in order to provide more adequate retirement incomes for themselves in the future... In this way workers will be providing part of the investment capital required, so that... they... receive a portion of their retirement income by way of an accumulated return on their investment rather than from tax supported programs... this should contain the potential tax burden on future generations.¹²

Some form of advanced funding of the state pension system, therefore, provides a way in which to simultaneously improve retirement income for the future elderly, reduce intergenerational tensions, and generate an investment fund under public control which could potentially serve as a countervailing force to the economic power of private institutional investors. It remains to be determined for what purpose an investment fund accumulated through the state retirement income system might be used so as to promote the public interest and progressive political strategies. In this

FIGURE 10-3
Relationship Between Funding Method, Contribution Phase-In,
and Fund Size, Aging Population Scenario



regard it is useful to differentiate between micro-and-macro directed investment strategies.

10.3 Macro-Directed Investment Strategies

Directed investment strategies based on the operation of the national retirement income system are a mechanism through which to pursue alternative ("directed", "selective", "targeted" or "social") economic strategies at a macro-economic level to meet broader social policy objectives. The size of the investment fund will, as previously discussed, depend upon the method and level of funding of the state pension system. To the extent that any investment fund is accumulated through the public pension system is to pose the question for what purpose such a fund exists - that is, what are its investment objectives and strategy?

National social security arrangements have been described as a "social intervention which was brought into being to perform a specific function in a specific economic and social environment."¹³ Accordingly, there "is no single best method of financing since this will depend upon the economic, institutional and cultural context of the social security program" and "no program and financing arrangement [can] be considered permanent since the context is always changing."¹⁴ As the economic and institutional context changes may, therefore, result in the evolution and modification of social security and pension arrangements from single to multiple objective programs.

This was recognized by the International Labour Organization (ILO) as early as 1939 when it recommended that social security "investments be made with regard to their social and economic utility."¹⁵ In recent years there has been increasing recognition in both industrialized and less developed countries that social security programs can not be viewed separately or in isolation from broader economic policies and objectives because income security arrangements are not only an effect of social

development, but may also exert an influence on the direction of the economic development process.¹⁶ The state social security system, depending upon the level of funding and investment objectives, may therefore become an instrument to satisfy a multiplicity of broader socio-economic goals, while at the same time fulfilling its primary objective of generating retirement income.

Table 10.3 reports existent arrangements and various proposals for macro-economic directed investment strategies based on the state pension system or related modalities.¹⁷ What these different national arrangements have in common is an attempt to promote economic development in the public interest through the national social security system and to prepare for the demographic transition. In some countries such as

Sweden, Switzerland, and West Germany - whose [social security] systems are the most developed and mature in the world - was the concern for problems of long-term financing in anticipation of mounting...[pension] costs. Two general approaches to the problems were adopted by these countries. Sweden and Switzerland elected to build up large reserves for future contingencies. Germany, however, retained the pay-as-you go principle and supplemented it with a limited reserve fund.¹⁸

The alternative funding methods employed in these countries have resulted in different investment objectives being pursued, depending upon national circumstance. Because "the significance of...an expanded public retirement income system would...in part depend on the method of financing...as well as...the investment policy",¹⁹ it is desirable to briefly review the investment objectives of those pension systems which are of special relevance to this study.

The case of Sweden is of particular interest because it represents one model of social democratic development which has evolved an advanced social security system. The surplus of the state pension system is invested in three bond funds and one equity fund. The investment objectives of these

TABLE 10.3

MARCO LEVEL
DIRECTED INVESTMENT STRATEGIES,
STATE PENSION SYSTEM

COUNTRY

CURRENT ARRANGEMENTS

Sweden

Part of the surplus of the state pension fund is invested in the private sector through three bond funds and one equity fund. The investment objectives for these funds were defined to include housing, municipalities, small business and government. The new equity fund was created to supply risk capital for employment generating areas of the economy and industrial revitalization. The equity fund now represents nearly 3 per cent of the capital market. The funds have a tripartite administrative structure.

The passage of the 1983 law for wage-earner funds was designed to transfer profits and company shares to workers and unions. This is a modification of the Meidner proposal which was endorsed by the Swedish Confederation of Trade Unions (LO) in 1976. The funds' income will be from a new tax on corporate profits and a special payroll tax. There are five regional funds. Each of the funds has a 9 person board. At least five of the members must be employees. The funds are used for loans to start new enterprises or to buy shares in existing companies. Unions are limited to a maximum of 20 per cent of the voting shares. The funds are required to earn at least a 3 per cent return on investment, with the interest going to the national pension fund. The objective is to strengthen employee influence at the workplace through ownership in Swedish corporations. Despite the wage-earner funds' operation at the firm and industry level, it may viewed as a macro-level strategy because of its impact on the ownership and control of industry.

Canada/Quebec

The Quebec Pension Plan (QPP) is separately administered and managed from the Canada Pension Plan (CPP). It is an actively managed fund through its investment arm, the Caisse de Dépôt, which is now the fourth largest financial institution in Canada. The investment objectives of the QPP are explicitly related to provincial economic development. The Caisse invests exclusively in Canadian Securities; 30 per cent of the QPP fund may be placed in equity investment. The Caisse is a major shareholder in the financial and industrial sectors having a 4 to 7 per cent equity position in the top 5 banks, a 9 per cent investment in the Royal Trust Company, a 23 per cent equity holding in Domtar Inc., a 27 per cent share of Provigo, and a 56 per cent interest in Gaz Metro. The Caisse has invested in over 100 private placements within the province, some of these being classified as venture financing. The investment pattern of the Caisse is affected by the financing requirements of the province. The real average annual rate of return on investment to the QPP was on average 1.3 percentage points greater than the CPP and was comparable to that earned by private pension funds between 1966 and 1979.

Singapore

In the order of 70 per cent of total housing stock has been built by the government's two housing corporations. This has been accomplished through a reinvestment arrangement between the Central Provident Fund (CPF), the compulsory contributory retirement insurance scheme, and the public housing corporations. Thirty-seven per cent of the country's wage bill is forced saving which is directed towards social investment.

TABLE 10.3 (CONT.)

| COUNTRY | GOVERNMENT PROPOSALS |
|-----------------------------------|--|
| Province of Saskatchewan (Canada) | A 1982 proposal to establish a "coherent and consistent" investment policy through a Canadian Public Investment Fund (CPIF) to satisfy public investment needs. Joint federal and provincial government participation on an equity basis in "projects of national significance" through the CPIF for energy, transportation, industrial and social projects. |
| France | A 1982 proposal advanced by France's socialist government to introduce jointly managed funds, similar to the Meidner proposal in Sweden, to promote industrial investment. |

LABOUR PROPOSALS

| | |
|---------|---|
| Canada | <p>The Canadian Union of Public Employees (CUPE), the largest union in the country, endorsed a policy advocating that the Canada Pension Plan (CPP) Investment Fund be used to promote an industrial strategy and repatriate key sectors of the economy from U.S. transnational corporations (1977).</p> <p>The Canadian Labour Congress (CLC), the national labour confederation, endorsed a policy advocating that the CPP Investment Fund maximize its investment performance and be used to promote an industry strategy (1978).</p> <p>The United Steel Workers (Canadian region) endorsed a policy advocating that the CPP Investment Fund be used to promote a "leading edge" resource development strategy, coupled with national economic planning (1979).</p> |
| Britain | The Trades Union Congress (TUC), based on a 1979 Congress resolution, recommended to the (Wilson) Committee to Review the Functioning of Financial Institutions (1980) the creation of an independent investment fund to promote industrial revitalization by providing new long-term venture capital. This investment fund is based on the operation of the occupational (private) pension system, with 5 per cent of all new contributions (cash flow) being placed with and invested by the independent fund. The overall direction of the investment fund would be co-ordinated and integrated with the National Investment Board (NIB), and for that reason may be viewed as a macro-strategy. |

Sources: For Sweden Staffon Sonning, "The Employee Fund Issue Moves Toward and Decision", Current Sweden, No. 309 (October 1983), p. 1-10 and Claes-Goran Kjellander, "Employee Shareholder Funds Introduced", Current Sweden, No. 326 (October 1984), p. 4-5. An explicit statement regarding the operation and investment objectives of the Quebec Pension Plan (QPP) through the Caisse de Dépôt is outlined in the Quebec Deposit and Investment Fund, Annual Report, 1966 and the 1982 Annual Report. For Singapore note "Singapore: A Survey of the Sovereign Municipality", The Economist, December 29, 1979, pp. 5-24. The French proposal for wage-earner funds is reviewed in "The Employee Funds Debate", European Industrial Relations Review, No. 117 (October 1983), pp. 17-18. For labour union proposals note text citations.

funds include housing, municipalities, small business and government. The equity fund was established to supply risk capital for employment generating areas of the economy and industrial revitalization. The Swedish state social security system therefore has been able to maintain its commitment to provide retirement income and, in addition, has become a source of capital formation for the private and public sectors.

The passage of the 1983 law establishing wage-earner funds in Sweden represented a new and ambitious initiative to transfer power to trade unions and expand economic democracy. Because the investment function associated with the operation of employee investment funds is similar to that of other institutional investors, such as pension funds, they are treated here as being in the same category. The proposal for employee investment funds grew out of the deliberations of the Swedish Confederation of Trade Unions (LO) in 1971. This resulted in the Meidner proposal (1975 and 1976) for collective capital formation through wage-earner funds under trade union control.²⁰

Employee-investment funds, as a collective instrument, were conceived of as a method of accelerating capital accumulation, extending the democratic ownership of industry, redistributing the proportion of capital owned by workers, and expanding employee influence over economic decision-making. This was to be achieved by requiring corporations above a certain size to reissue or direct their equity shares to the firm's wage-earners' fund proportionate to their gross profit.²¹ Share issues would be restricted to employee investment funds which would each year receive an issue of shares without other investors having a similar entitlement. The wage-earners' fund would utilize part of the dividends that accrue from their aggregate holdings to purchase new (rights) issues in order to obtain new investment capital for the firm. This would allow for the gradual transfer of economic power from private capital to democratically

elected collectivities, resulting in the socialization of industry over a thirty year period. Much of this thrust, however, was blunted when the 1983 legislation limited trade union shareholdings to 20 per cent of a company's voting shares, although the effectiveness of this strategy would depend on the diffusion of a firm's shares.

From the perspective of progressive politics, because employee investment funds have the effect of transferring "profits to trade union control rather than...socialising the capital stock directly...they [are] a gradualist strategy that may render them politically feasible in a non-revolutionary situation."²² The advantages of employee investment funds are that they undertake capital accumulation and economic development, while initiating industrial democracy by enabling labour to acquire increasing influence through the shareholdings which they acquire.²³ The investment function inherent to the operation of the state pension system offers a similar potential.

The Canada/Quebec Pension Plans (C/QPP) are the product of what has come to be regarded as the "Canadian compromise",²⁴ having provided the federal state with an important source of political power and legitimacy,²⁵ and the provinces with developmental capital or operating revenues as discussed in Chapter 7. It was a compromise between Ontario, which did not want a public pension system, and Quebec, which wanted a significantly expanded public retirement income system under provincial control. Ontario took the position that government had no role in the management of large pools of capital. Conversely, Quebec, then experiencing the "Quiet Revolution" of the 1960s, advocated a pension system under public control which would generate a large investment fund to promote provincial economic development. At that time, both the federal and Ontario governments wanted the Canada and Quebec Pension Plans on a pay-as-you-go (PAYGO) basis; Quebec wanted a pension plan with

a high level of funding, intending to use the investment fund as a tool for economic modernization. Subsequently, the Canada Pension Plan (CPP) was put on a PAYGO basis (generating a modest surplus until the early 1990s as a result of the underlying demographics), while the Quebec Pension Plan (QPP) was placed on a partially funded basis.

The Caisse de Dépôt, the investment arm of the Quebec Pension Plan, was viewed from its inception as an instrument for economic development. The Caisse, Mr Jean Lesage, the former Premier of Quebec, said when implementing the plan "is destined to become the most important and powerful financial instrument Quebec has had so far...[It] must not be envisaged as an investment fund like others, but as a growth instrument, a more powerful lever than we have possessed" and must coordinate its operations with "the general economic policy of the state."²⁶ The Caisse de Dépôt has been able to successfully satisfy its fiduciary or trustee responsibility to provide pension benefits and, at the same time, has promoted economic development. The 1982 Annual Report of the Caisse described this situation by noting that

the investment policy of [the] Caisse hinges on two major elements. First, it is essentially bound by criteria of security and return; secondly, its action is directed towards the support of Quebec economic development. For [the] Caisse these requirements are absolutely compatible.²⁷

The Caisse de Dépôt as an actively managed investment fund under public sector control has acquired, even by private sector standards, a reputation for aggressive and competent investment management. The real average annual rate of return earned by the Caisse de Dépôt between 1966 and 1979 was 1.3 per cent, compared with 1.4 per cent for all trustee (private and public sector) pension funds and 0 per cent for the Canada Pension Plan.²⁸ This information suggests that there is no inherent reason why an actively managed investment fund accumulated through the public pension

system cannot provide retirement benefits, generate social capital, and earn a competitive rate of return on investment.

The Caisse de Dépôt is now the fourth largest financial institution in Canada and a major actor in capital markets.²⁹ The Caisse invests exclusively in Canadian securities and is permitted to invest up to 30 per cent of its assets in equity, although it never in fact has exceeded 25 per cent of its portfolio. The Caisse is a major shareholder in the finance and industrial sectors. The Caisse was used to assist in the provincial take-over of the asbestos industry (through Brascan), maintains a 4 to 7 per cent equity position in the top 5 banks and a 9 per cent holding in the Royal Trust Company. In addition, the Caisse owns 23 per cent of Domtar Inc. (a paper company), a 27 per cent share of Provigo (a supermarket chain), a 56 per cent interest in Gaz Metropolitan and has a major shareholding in Reitmans (a retail distributor). The Caisse has invested in over 100 private placements in the province, some of those being venture financing. The Caisse de Dépôt has conducted itself as an activist shareholder and has insisted on representation on the board of directors of its major corporate investments. The Caisse's clout in financial markets is now so considerable that the former Liberal government attempted to restrict its investment in the transportation sector in order to prevent a takeover of the Canadian Pacific Railway (Bill S-31).³⁰

Building upon the potential associated with the state pension system's investment function, a number of national labour confederations and their affiliates have recommended pursuing macro-economic directed investment strategies in order to promote progressive social change. In Canada, for example, the Canadian Union of Public Employees recommended (1977) that the CPP Investment Fund be used to promote an industrial strategy and repatriate key sectors of the Canadian economy from American transnational corporations. It proposed that

the public money accumulated through the...funded Canada Pension Plan and public employee pension funds, instead of being used to finance the investment requirements of the private corporate sector, should instead be used in the public interest to:

1. Repatriate the Canadian economy by using the Canada Pension Plan and public employee pension funds as an active investment vehicle to co-ordinate and direct an industrial strategy by...buying the outstanding equity interest of foreign owned or controlled corporations in Canada.
2. Pursue an industrial strategy at both the federal and Provincial levels by using the...funded CPP and public employee pension fund assets to invest directly in new physical plant and equipment in the manufacturing sector and the petroleum and natural gas sector through federal and Provincial crown corporations.
3. In this latter case, a competitive market rate of return should be guaranteed to the CPP and public employee pension plans to preserve the integrity of the fund for member beneficiaries and in order to meet the outstanding fiduciary responsibility.³¹

Towards this end CUPE recommended a targeted or directed investment strategy aimed at the dominant foreign and domestic corporations in key sectors of the economy based on their equity exposure in financial markets.

The Canadian Labour Congress (CLC) subsequently endorsed a policy (1978) advocating that the CPP Investment Fund maximize its investment performance and be used to promote an industrial strategy. The United Steel Workers (Canadian region) recommended (1979) the establishment of an agency such as the Caisse de Dépôt et Placement in Quebec for the Canada Pension Plan, "capable of receiving pension fund monies for social impact and economic development" in order to "facilitate the aims of our industrial strategy"³² by acquiring "substantial equity participation...in each of the key sectors."³³

The Trades Union Congress (TUC) in Britain, on the basis of a 1979 convention resolution,³⁴ recommended to the Wilson Committee to Review the Functioning of Financial Institutions the creation of an

independent investment fund to promote industrial revitalization.³⁵ This proposal was based on the operation of the occupational pension system, with 5 per cent of all new contributions (cash flow) being deposited and invested by the investment fund. The activities of the investment fund would be co-ordinated and integrated with broader macro-economic planning agencies such as the National Investment Board. The TUC proposal may be placed within the framework of the alternative economic strategy advocated by the left-wing of the Labour Party. In Britain, according to Minns,

nationalizing 30 of the major financial institutions would result in the state controlling between 20 to 40 per cent of the shares in nearly three-quarters of the top 50 companies.

The nationalization of financial institutions would provide substantial control over the shares of major companies. The management of these shareholdings could be the responsibility of a planning and investment agency, or...the shareholdings could be co-ordinated by a central ministry.³⁶

The macro-level investment fund accumulated through the occupational pension system envisioned by the TUC proposal would therefore be used as a means of directly acquiring an equity position in key sectors of the economy to facilitate a fundamental economic transformation. The occupational pension system would thus complement broader macro-economic policies.

Macro-economic directed investment strategies undertaken through the state pension system may promote progressive social change by increasing the social utility and marginal efficiency of capital in the public interest. The various current and proposed directed investment strategies based on the operation of the state pension system outlined here, while reflecting specific historical and national conditions, nevertheless have three characteristics in common. First, most of these arrangements are predicated upon the existing institutional apparatus of the state social security system.

Second, macro-economic directed investment strategies effectively transform the state pension system into a multiple objective program. The social security system becomes an instrument at the macro-economic level to affect savings, investment, capital accumulation, the ownership and control of the finance and industrial sectors, economic development and planning in the public interest, as well as generating retirement income.

Third, the various alternative or macro-directed investment strategies related to an actively managed social security investment fund are based on the savings and investment function associated with the operation of institutional investors. That is, the investment function intrinsic to the operation of the pension system is turned on its head and used against the corporate sector. The pension system's investment function provides the link between the finance and industrial sectors of the economy as discussed in Chapters 7 and 9. It follows that the investment function underlying the operation of the state pension system in advanced market economies may, depending upon political circumstance and investment strategy, be used to socialize the "commanding heights" of the economy through capital markets as a result of the interpenetration and interdependence of the finance and industrial sectors. The immense financial resources, that is the savings of workers, organized and accumulated through a public pension system with a high level of funding, may therefore promote social change and economic accountability in the public interest. Micro-directed investment strategies based on the occupational pension system may serve a similar purpose.

10.4 Micro-Directed Investment Strategies

The regulatory framework of the occupational pension system has generally focused on investment practices and portfolio composition rather than on investment objectives. Little attempt has been made to relate

investment practices with investment objectives in terms of their social utility. The employer-sponsored occupational pension system, however, can be put under direction to achieve broader socio-economic objectives. Social or selective investment strategies pursued through the private pension system would result, as Harbrecht put it, in employees as beneficial owners of pension capital having "some share in the direction and control of ... pension trusts... A voice in investment policy would allow employees to ... direct fund investment into channels beneficial to them."³⁷

Social investment objectives through the occupational pension system have been broadly defined to include such goals as community development projects, industrial revitalization and employment generation, retention of capital within a geographic region, restriction of investment in anti-union firms or those which trade with South Africa, and investment in low-cost housing and social services. Directing the considerable assets of the private pension towards socially desirable goals has been referred to as "pension clout" and may be viewed as a form of shareholder activism. Social investing refers to the investment of occupational pension plan assets in projects which are regarded as socially desirable, but which may result in either a lower rate of return, or higher risk for an equivalent return. Micro-directed investment strategies through the private pension system use the social utility of investment, rather than market indicators, as the relevant measurement criterion. Current social investment strategies based on the occupational pension system are reported in Table 10.4 for various countries.

Investment fund managers and labour organizations have traditionally subscribed to the view that "pension funds are designed to serve but a single major purpose : to help meet the need for an assured income after a person's working life is over."³⁸ Despite the recent controversy surrounding social investment,³⁹ particularly in the U.S. and to a lesser extent Britain, and its advocacy by some labour confederations

TABLE 10.4

MICRO LEVEL
DIRECTED INVESTMENT STRATEGIES,
OCCUPATIONAL PENSION SYSTEM

| COUNTRY | CURRENT ARRANGEMENTS |
|---------------|---|
| Britain | A number of unions, notably the Postal Workers and the National Union of Mine workers, have used their respective occupational pension fund for job creation purposes. The Postal Worker fund, the largest non-government fund in Europe, sets aside in the order of 2 per cent for investment in small business. The NUM seeks investment opportunities in mining communities. |
| United States | <p>The State of Wisconsin Investment Board (SWIB), the agency responsible for the investment of public employee pension funds has, since 1921, followed a social or targeted investment policy in an attempt to keep money within the state.</p> <p>The American Federation of Labour-Congress of Industrial Organization (AFL-CIO), at its 1979 convention, endorsed a "gray belt" strategy for industrial revitalization and social investment through occupational pension plans. The objectives of this strategy are employment creation, social projects (such as housing), and the advancement of workers' interests through investment activities which might affect corporate policy, such as withholding pension fund investment from anti-union firms or those which invest in South Africa. Notwithstanding these objectives the policy noted that social "investment should not interfere with the primary responsibilities of pension fund trustees" to provide and secure pension benefits.</p> <p>Major industrial unions, such as the UAW, USW and IAM, have endorsed social investment policies, as have major public employee unions and the construction trades.</p> |
| Canada | The Quebec Federation of Labour (FTQ) in 1983 introduced an employee investment fund, in some ways modelled on the Swedish Meidner proposal, in conjunction with the Government of Quebec. The purpose of this "Solidarity Fund" is to promote investment in small-and-medium business (PME) in Quebec to create, maintain and save jobs; in addition, the fund is to be used for venture capital investments. The fund is financed through individual share subscriptions to workers and controlled by the FTQ. It is estimated that the fund will have \$200 million of assets within 5 years. |
| Denmark | The ATP, the mandated occupational pension plan, is used for venture capital to promote industrial development and for home mortgages. It is now permitted to invest up to 20 per cent of its assets in the equity market. The PKA, the occupational pension plan sponsored by the labour confederation is used for equity investment "to strengthen the economy". |
| France | Through the pay-as-you-go financed occupational pension system negotiated by the labour and employer confederations (the régime complémentaires), and recognized in law, there is a 1 per cent greater than required employer contribution to a "social action fund". This is primarily used for housing and other facilities for the elderly. |
| Israel | As a result of the labour confederation having direct responsibility for the administration of major occupational pension funds, has resulted in their being used for various social and developmental purposes such as co-ops. |

Sources: These data are drawn from the American Federation of Labor-Congress of Industrial Organizations, Investment of Union Pension Funds (Washington, D.C.: AFL-CIO, circa 1980), pp. 53-74; Jeremy Rifkin and Randy Barber, The North Will Rise Again: Pensions, Politics and Power in the 1980s (Boston: Beacon Press, 1978) and Donald A. Smart, Investment Targeting: A Wisconsin Case Study (Madison: Wisconsin Centre for Public Policy, 1979).

and their affiliates,⁴⁰ the use of occupational pension fund assets for alternative investment strategies is hardly a new idea, although views on the subject have widely varied.

In the United States, John L. Lewis, former head of the United Mine Workers (UMW), in the late 1940s invested millions of dollars from the welfare fund in a major coal company. While this did little to maximize investment return to provide adequate pensions, it did subsidize coal exports and buoy employment. Such policies have been denounced by some as "trade union capitalism",⁴¹ while others such as Ted Hill, former chairman of the Trades Union Congress (TUC) in Britain, denounced his colleagues in 1962 for investing in industrial shares and recommended that it "would be wise to leave the Stock Exchange to the wolves."⁴² Nevertheless, as early as 1956 a group of prominent U.S. labour leaders testified before a Senate subcommittee that unions were interested in having pension funds invested in projects which would benefit their members through investment income or which would be of social advantage, such as low-cost mortgages and housing. The United Auto Workers (UAW) in 1959 urged the Ford Motor Company to use their workers' pension funds to invest in housing and other community projects.⁴³ By 1979, Lane Kirkland, the new president of the AFL-CIO, would state on the subject that

there are areas of risk and ambiguity in switching to a consideration of the social overtones of investment policy. Whatever we do must conform to the overriding concern that the investments be safe and that the return be adequate to satisfy the funds obligations.⁴⁴

If the AFL-CIO has its way, however, "money power - that traditional mainstay of the bosses - will be directed away from investments in 'anti-union' corporations...into enterprises that...[are] friendly to the interests and goals of workers."⁴⁵ As Lloyd McBride, the late president of the United Steel Workers put it, "we can no longer tolerate this situation of using worker-produced capital against ourselves."⁴⁶

Subsequently a number of influential AFL-CIO affiliates including the United Auto Workers (UAW), United Steel Workers (USW), International Association of Machinists (IAM), major public employee unions and the construction trades have all endorsed, with certain important qualifications, a social investment policy for occupational pension funds. A Pyrrhic victory was scored by the UAW on the issue with the Chrysler Corporation in the 1979 round of negotiations. As a result of the union foregoing one year of contributions to the pension fund (\$200 million), Chrysler agreed to introduce social investment criteria into the management of the fund and, as well, divested the portfolio of five stocks in companies involved in South Africa. Money directed to socially useful investments include low-and-middle income housing, day-care and community projects.⁴⁷

In Britain, Titmuss as early as 1959 argued that "there can be little doubt that what is needed is the direction of [the] increasing flow of savings into...domestic areas of public squalor."⁴⁸ The Labour government's proposals in its 1976 white paper on occupational pension plans would have given workers, through their unions, much greater involvement in pension fund investment management. The government of the day must have realized that with greater union participation, pension fund investment policy would have been influenced by social and political considerations. Renewed interest by British unions in occupational pension plans in the 1970s witnessed a corresponding interest in the direction of pension fund investment. Some major TUC affiliates, the General and Municipal Workers' Union (GMWU), for example, called for a "comprehensive investigation into the question of using [occupational] pension fund resources for social purposes"⁴⁹ and related this to the "public ownership of [the] pension and life assurance industry as part of a wider plan for the financial sector of the economy"⁵⁰ in order to give "priority to...the national industrial

strategy." Other unions such as the postal workers and the National Union of Miners (NUM) have pursued social investment policies such as venture financing and housing. The "route by which [British] trade unions are going to extend their functions...in corporate affairs," one commentator suggested, "is through...pension funds...Equipped with the Trojan Horses of pension funds, organized labour can not be kept for long outside the citadels of corporate power."⁵¹

In summary, micro-directed investment strategies based on the occupational pension system, as a form of shareholder activism, are an attempt to mobilize the pension capital of workers so as to serve their broad socio-economic interests. Central to such an approach are three characteristics. First, reformulating the investment goals of the private pension system is an attempt to transform it into a multiple objective program to generate both retirement income and social capital at the enterprise or community level. Second, the social utility of investment to promote the interests of workers is used as the relevant measurement criterion, rather than performance indicators which rely on market criteria. Third, and this perhaps should be emphasized, social investment strategies related to the occupational pension system at the plant or sectoral level have absolutely nothing in common with the various theories of "people's capitalism", including Drucker's recent notion of "pension fund socialism".⁵² Micro-directed investment strategies, unlike these "theories", are predicated on the economics of collective action. Directed investment strategies at the macro-and-micro levels must be assessed in terms of their feasibility.

10.5 Assessment of Alternatives

Directed investment strategies are a means by which to mobilize and channel the enormous resources of the pension system - public and private - towards socially productive and useful purposes in the public

interest and are a way in which to promote public control and accountability. From a social policy perspective, macro-and-micro alternative directed investment strategies must first be assessed in terms of their technical feasibility, however, before relating them to broader political strategies for social change. These technical considerations may be analyzed in terms of a series of evaluation criteria. These are elaborated upon here.

10.5.1 Investment Objectives. Central to the concept of alternative directed investment strategies based on the pension system is the ability to channel investment to socially useful or productive areas of economic activity. The alternative investment objectives followed through the state and occupational pension systems, as evidenced by current practice and proposals (Tables 10.3 and 10.4), are considerably different. In this regard it is necessary to clarify the investment objectives associated with such strategies.

Investment objectives based on the state pension system may be formulated to achieve a number of goals at the macro-economic level. These might include investment to promote economic development and diversification, investment in the crown corporation sector, reduction in government non-public borrowing requirements, reduction in government external borrowing requirements, investment in the private sector for take-overs and a control interest in dominant industrial and financial corporations, passive investment recycled through the private sector, venture capital financing, and bail-out operations. Social investment strategies predicated on the occupational pension system on the other hand, have generally concerned themselves with employment generation, industrial revitalization, and the provision of social services at the plant, sectoral or community level. These ostensible economic development goals

are commonly formulated in terms of community development models, rather than as national economic objectives or strategies.

At issue is whether specific investment objectives correspond to the means to bring about their realization. This subject is relevant with respect to both macro-and-micro-level directed investment strategies. Regarding the state pension system, it has been argued by some government and private sector representatives that the public pension system "is designed to provide a source of retirement income" and "if a new goal is added - i.e., the manipulation of the economy through the fund on the basis that more wealth can be created - we encounter a conflict of objectives."⁵³ Furthermore, if the state pension system "is to be put on a funded basis, it is important that the investment policy of the fund...be free of political interference" because "social objectives should be pursued through political, not fiduciary, means."⁵⁴

Contrary to this view three arguments may be advanced. First, in advanced market economies there is a high level of "unsatisfied demand" (to use the Keynesian term), resulting in public needs and private wants. To diminish these considerable disparities and inequities, it may be argued, will require more state intervention and economic planning in the public interest.⁵⁵ Second, by channelling the resources of the state pension system into productive (although not necessarily profitable) investment will generate economic growth and capital accumulation to strengthen the economy so as to support an expanded public pension system. Macro-directed investment policies through the state pension system therefore complement and are entirely compatible with the retirement income objective of the national social security system. Third, assuming that any social institution or policy is free of "political interference", or is "neutral", is itself a political statement. "Neutrality" within this context is merely an ideological cloak for maintaining current social arrangements.

The private sector maintains that the public pension system should "be free of political inference" in order to maintain its control over pension capital and the direction of investment as discussed in Chapter 9.

An important issue differentiating the types of directed investment strategies pursued is based on the distinction between productive investment and capital formation (plant and infrastructure) at the macro-economic level and investment in bail-out operations, venture financing, and the provision of social services at the micro-level. It must be recognized that there is a thin, but real, line between using pension funds for economic development and, what are in effect, bail-out operations. Despite the social merits of such undertakings, such as employment protection in the case of a bail-out operation, or a high rate of return with venture financing, it may be argued, that investment by workers in such endeavors through the occupational pension system is inappropriate given the high risk or the potentiality of an investment shortfall being inflicted upon the fund. To the extent that such types of investment are deemed desirable at a micro-level, more conventional methods of financing exist to avoid jeopardizing the retirement savings of workers. The investment objectives of a national social security fund are related to and impact upon the macro-economic levers of power, whereas micro-level strategies are related to the workplace or community. As a result, investment objectives affect other important technical considerations.

10.5.2 Pooling and Risk. Investment objectives are related to the level of acceptable risk. This is of particular relevance when assessing the propriety of macro-and-micro directed investment strategies based on the pension system. In this regard three fundamental principles associated with the operation of a national social security system are of particular importance : compulsory enrollment, the pooling of risk over the population, and the resultant cross-subsidies between covered groups. Compulsory

enrollment in a national social security program results in the pooling or spreading of risk over the entire covered population. Any risk attached to a directed investment strategy through the state pension system, therefore, is spread over the entire labour force rather than just one segment of it, as would be the case with the occupational pension system.

Micro-level social investment strategies have a number of pernicious distributional effects as a result of voluntary, limited and selective occupational coverage. First, limited occupational pension plan coverage mitigates against spreading investment risk based on the pooling principle. Put another way, particular segments of the labour force, i.e., those covered by an employer-sponsored pension plan, are subjected to higher risk-taking than would otherwise be the case if a similar investment strategy were followed through the state social security system. Second, because of limited coverage and pooling through the occupational pension system the nature of the risk incurred is different. Specifically, alternative investment strategies based on the private pension system result in individual plan members becoming risk-takers, whereas there is a social risk associated with the operation of the national retirement income system. Third, social investment strategies based on the occupational pension system are an externalized risk and cost of production to individual firms - that is, specific groups of workers effectively subsidize their employer,⁵⁶ or government, depending on the type of investment.

Risk-taking associated with directed investment strategies, therefore, varies according to the type of institutional arrangement. The nature of risk-taking associated with micro-directed investment strategies suggests, however, that such an approach may exacerbate sectoral tensions between groups within the labour force, whereas alternative investment strategies based on the state pension system would represent a socialized or

pooled risk. The level of risk, in turn, is related to the way in which pension assets are invested.

10.5.3 Portfolio Composition. Investment objectives and the corresponding level of risk determine asset mix or portfolio composition. The ability of alternative investment strategies at either the macro-or-micro level to promote the public interest and economic accountability will depend on the type of investment. In order for directed investment strategies at the macro-level to be successful in terms of affecting economic policy and social change will require that the social security investment fund have a substantial equity portfolio in the private sector so as to exert control over the "commanding heights" of the economy. Alternatively, such an investment fund might be used for direct investment in the public sector or placed in non-marketable government bonds of crown corporations at a guaranteed or competitive rate of return.

The private sector is aware of this attempt at "socialism through the back door". As one source put it, "the potential effect of such massive government intervention in the market causes shudders" because of "the prospect of ultimate government control of private industry through the CPP."⁵⁷ The prospect of cycling the same massive funds from an expanded CPP to the private sector, however, is greeted with jubilation, as evidenced by the Government of Ontario's proposal for the full-funding of the CPP.⁵⁸ In order to forestall government intervention in the private sector, and to remove "political interference", it has been suggested by some business representatives that these monies be invested in debt instruments such as corporate bonds. Thus, workers would effectively underwrite the private sector, while being denied the proprietary rights associated with equity ownership. It was for this reason that the Canadian Council on Social Development suggested that "it would be wise to approach with caution the prospect of [increasing] the funds available [to the private

pension system] without...establishing some controls on their usage in the national interest."⁵⁹

Social investment objectives at a micro-level may take a number of different forms. To the extent that occupational pension funds follow a social investment strategy based on their equity holdings suggests, however, that they will resemble other shareholder activists in attempting to influence corporate behaviour. Whether such a strategy is viable will depend on the amount and concentration of such shareholdings in a pension fund's portfolio. A formal difficulty with respect to an occupational pension fund exerting control over corporate behaviour, however, is that such shareholdings are ordinarily limited to 30 per cent of the value of the fund or 10 per cent of a firm's outstanding shares. This may, depending upon the diffusion of outstanding shares, effectively limit an individual occupational pension fund's ability to pursue an alternative investment strategy or affect corporate behaviour. Whether an alternative investment policy would be viable through the occupational pension system without doing injury to the retirement income objective remains to be determined.

10.5.4 Fiduciary Responsibility. The issue of social investment through occupational pension plans is strewn with contradictions and problems. These must be confronted. A formal obstacle to unions pursuing a social investment strategy are the fiduciary obligations placed upon pension fund managers and trustees, explicitly and implicitly contained in the relevant legislation, requiring them to act "solely in the interest of the participants and beneficiaries" and to act in a "prudent" manner.

While the legal notions of "fiduciary responsibility" and "prudent man" serve as an elaborate ideological artifice to legitimize the operation of the employer-sponsored pension system to maintain private sector control over pension capital (Chapter 9), they nevertheless fulfill an important purpose. That purpose is two-fold : first, to guarantee an adequate rate of

return, subject to risk level, to ensure pension benefits to plan members; and second, especially in the case of a defined benefit pension, where the plan sponsor is responsible for any short-fall in investment earnings, these strictures result in minimizing the cost of the program. The issue in large part turns on what is meant by "prudent", as well as, "prudent" for "whom"?

Many of the proposals for alternative investment strategies have suggested that occupational pension plans invest their assets in the plan sponsor or community in order to protect or generate employment; alternatively, some proposals have advocated investing in low-cost mortgages or housing, as well as social services such as day-care or nursing homes. Some advocates have gone so far as to suggest that it is imprudent not to take into account the social consequences of pension fund investment (a "social audit"), or to fail to function as a shareholder activist.⁶⁰

While such proposals may have the effect of improving the social utility of investment, by satisfying the needs of the active labour force in the short-term, it is highly questionable whether this will preserve the integrity of the pension fund in the long-run. Furthermore, the interests of pensioners may be jeopardized by alternative investment strategies ignoring portfolio diversification, less than arms-length investments, or earning a lower rate of return than might otherwise have been the case, thus endangering accrued pension benefits. It may even be argued that such micro-social investment strategies are counterproductive in terms of advancing the interests of the active labour force. This is because a short-fall in investment earnings, particularly in the case of a defined benefit pension plan, necessitates additional contributions from the plan sponsor which, within a total compensation costing framework, may result in lower wages. For these reasons social investment strategies through the medium of the employer-sponsored occupational pension system should be approached with extreme caution.

Experience to date suggests that the co-management of pension funds has had little affect on investment practices because of the constraints imposed by fiduciary responsibility. In Britain, the Economist Intelligence Unit, for example, reports that "whenever trade union representatives become [trustees] they are just as keen, if not more so, to act in a capitalist fashion."⁶¹ One study in the United States noted that union trustees "become more concerned with the business aspects of the pension fund than with the economic impact."⁶² Another study concluded that,

while pension funds can be divested and redirected into firms and projects adhering to community-defined goals, or used to influence the direction of corporate activities through stock-voting rights,...retirement systems are...inextricably tied to the capitalist system...Pension funds are limited to achieving desired social and economic goals only within activities that provide "adequate" investment income.⁶³

Thus, occupational "pension funds may simply evolve into new alternative investment opportunities rather than worker control over ... assets."⁶⁴

The issue of fiduciary responsibility, as that term is ordinarily understood, has little relevance to macro-economic directed strategies. This is because the state is the ultimate guarantor of social security benefits. Government therefore is in a position to provide a guaranteed or competitive rate of return to an actively managed social security investment fund in order to preserve the security of retirement benefits.

10.5.5 Market Impact and Economic Planning. In order for alternative directed investment strategies to be effective they must maximize their impact or "clout" in capital markets. In the case of macro-investment strategies based on the state pension system, a necessary prerequisite to fulfill this condition is a high level of funding (full-cost or full-funding) as discussed in section 10.2.2. A high level of funding is required to accumulate an investment fund in order to maximize the impact

on capital markets, serve as a countervailing force to private institutional investors, and pursue alternative investment strategies.

Compulsory enrollment associated with a national social security program serves as a natural conduit to mobilize savings for investment purposes. Conversely, the voluntary nature of the occupational pension system mitigates against it fulfilling a similar role, despite the advanced funding of benefits. This problem might be overcome, depending upon institutional arrangements, as in the case of the Trades Union Congress proposal, which channels a proportion of the contributions of the private pension system to a national investment agency. The considerable centralization and concentration of private pension fund assets, under the control of a few dominant financial institutions, may effectively serve a similar purpose, should those institutions be put under public control.

The ability to centralize pension fund assets in order to allocate them to alternative investment objectives is an important consideration if the pension system - public or private - is to be co-ordinated and integrated with broader economic planning structures to serve the public interest. National social security systems readily lend themselves to such an arrangement, while the private pension system might be adapted to such a purpose.

10.5.6 Draw Down of Benefits. While the national social security system and occupational pension funds may be utilized as a source of investment and developmental capital to promote progressive economic policies, they must continue to fulfill their primary function of providing retirement income. In this regard, it is necessary to identify a potential problem associated with macro-and-micro directed investment policies which may result in a conflict between the social investment and retirement income objectives being incorporated into one institutional apparatus. The conflict between these two program objectives will not become apparent

until the "baby boom" generation draws down benefits from the pension system at the demographic peak. The dilemma, in brief, is how are pension benefits to be paid from assets which are locked into non-marketable or illiquid social investments? This is an issue which has been too often ignored. It must be resolved or it must be concluded that social investment through the pension system - public or private - is not compatible with the retirement income objective.

Three distinct cases may be identified : first, where social investment is channelled through the state pension system; second, where social investment is cycled through an occupational pension plan; and third, occupational pension funds with conventional portfolios. In the case of a national social security system which pursues a directed investment strategy this is likely to take two forms : first, shareholdings in private sector enterprises; and second, direct investment in public sector crown corporations. In either instance, pension benefits could not be paid at the demographic peak unless the assets of the investment fund could be liquified. One hypothetical answer might envision selling back the assets - stock or an entire firm - to the private sector in order to cover pension obligations. Politically, however, this would result in a situation little different from that which existed prior to a directed investment strategy being implemented. The second, and more viable course, would be to "roll-over" the value of the outstanding pension obligations into marketable or non-marketable government bonds in order to cover pension benefits.

The ability of occupational pension funds following a social investment policy to honour pension obligations is considerably more difficult. The ability to pay pension benefits would in large part depend upon the amount and type of social investment. The basic problem confronting an occupational pension plan with social investments is that it may be locked into illiquid assets having no market value. This might be the

situation if a pension fund were to overly invest in its parent firm, as part of a bail-out operation, or in social services, such as day-care or nursing homes. To the extent that an occupational pension fund were locked into non-marketable assets, or earned a reduced rate of return, as a result of certain types of investment such as low-cost mortgages or housing, might result in it being unable to honour its commitment to pay pension benefits. There may be no way in which occupational pension plans following a social investment policy can extricate themselves from this quandary.

The third situation is the advanced funded occupational pension plan with a conventional portfolio. The assets of that portfolio (stocks, bonds and so on) cover the outstanding pension obligations (liabilities). As the "baby boom" begins to retire around the year 2011, occupational pension funds will go into a disaccumulation (dissaving) position to cover the draw down of pension benefits. Effectively this means that private pension plans as major shareholders of corporate equity will become net sellers of securities. This in turn will have a concomitant impact on capital markets, albeit over a twenty year period, and may be expected to exert down pressure on the price of securities when divested. Little, if any, attention has been paid to this issue in the technical literature, or its implications for the private pension system's ability to fulfill its commitments. It is necessary for macro-and-micro social investment strategies to be compatible with the retirement income objective of the pension system in order for them to be technically feasible. Other design features affect their political viability.

10.5.7 Contribution Structure and Fiscal Impact. Macro-and-micro social investment strategies must be distributionally and fiscally equitable for them to be politically acceptable - that is, these policies must not place an undue burden on those who can least afford it. The Economic Council of Canada has argued, for example, that

the required increase in the contribution rate [for a fully-funded CPP] would fall more heavily on those with lower earnings because it is a payroll tax. To ask this group for increased contributions to improve their pension benefits is one thing; to ask them to bear the brunt of programs to reduce foreign ownership of...industry or accelerate economic growth...is quite another... We [question] the fairness of achieving this alternative objective through a method that bears most heavily on lower-income groups.⁶⁵

Considerations of fiscal equity might therefore serve as an impediment to implementing macro-social investment policies through the pension system.

From a public policy perspective, however, such a formulation is incomplete and confuses "ends" with "means". The source of this regressivity is the existing contribution structure in most national social security systems in North America and Western Europe, as is well established, not macro-alternative investment policies as such. While such strategies might compound the problem, the source of this fiscal regressivity lies in the design of the contribution structure. In order to overcome this technical problem, and to introduce macro-directed investment policies on a fiscally equitable basis, would therefore require the implementation of a progressive contribution structure to nullify any negative effects on lower-income earners. A progressive contribution structure, based on the pooling principle underlying a national social security system, would also have the effect of promoting other vertically redistributive policies.

Unintended and anomalous distributional and fiscal inequities might possibly result from the implementation of micro-social investment strategies through the occupational pension system. This is a result of the current regressive and inequitable distribution of revenue loss and tax expenditure (lost interest to government) associated with the operation of the private pension system, involving a considerable fiscal cross-subsidy from low to high income groups. The cost of the private pension system was £ 1,400 to £ 2,900 million in the U.K. (1983), compared with \$28.4

billion in the U.S. (1982) and an estimated \$6.1 billion in Canada (1980). The current fiscal framework governing the private pension system is highly regressive and results in those without pension plan coverage supporting those with coverage. The fiscal subsidization of the private pension system ultimately serves to limit the expansion of the public pension system by depriving it of revenue.

Implementing micro-social investment policies would compound this situation in at least two ways. First, as a consequence of the fiscal cross-subsidy, those in the labour force without pension coverage would continue underwriting occupational pension plan members through the tax system. While some of the advantages of social investment policies, such as employment generation, would undoubtedly affect everyone, other programs, such as low-cost housing, would only benefit plan members. Second, to the extent that a social investment policy results in an investment shortfall requiring additional employer contributions (as in the case of a defined benefit plan), would result in this increased business expenditure being written-off through the tax system and subsidized by all tax payers to support those occupational pension plan members having a social investment policy.

In summary, social investment policies at a micro-level would be subsidized by all tax payers, including those without pension plan coverage, while the benefits would be unevenly distributed. To facilitate the introduction of macro-directed investment strategies through the state pension system on an equitable/would require a progressive contribution structure. This is a technical adjustment. To eliminate the fiscal and distributional inequities underlying the operation of the private pension system would require nothing less than a revolution in the income tax system.

10.5.8 Summary of Assessment. The technical assessment of macro-and-micro alternative investment strategies based on the pension system is summarized in Table 10.5. This evaluation suggests that macro-alternative investment strategies through an actively managed social security investment fund are generally more viable and feasible than are micro-social investment policies based on the occupational pension system. Macro-directed investment strategies are assessed as being superior in terms of 5 evaluation criteria, neutral in 1 category, and inferior in another. Micro-social investment strategies are assessed as being inferior with respect to 6 evaluation criteria and neutral in 1 category.

TABLE 10.5
ASSESSMENT OF PENSION SYSTEM
MACRO-AND-MICRO ALTERNATIVE DIRECTED INVESTMENT STRATEGIES
BY EVALUATION CRITERIA

| <u>Evaluation Criteria</u> | <u>Assessment of Strategies¹</u> | |
|--|---|--------------------|
| | <u>Macro Level</u> | <u>Micro Level</u> |
| Investment Objectives | + | - |
| Pooling and Risk | + | - |
| Portfolio Composition | + | - |
| Fiduciary Responsibility | + | - |
| Market Impact and Economic Planning ² | 0 | 0 |
| Draw Down of Benefits | + | - |
| Contribution Structure ³ and Fiscal Impact | - | - |

- Notes: 1. Comparative ranking where + indicates a superior assessment, 0 a neutral position, and - an inferior evaluation.
2. Depending upon the level of funding for the national social security system and institutional arrangements for the occupational pension system.
3. Assuming no change to current arrangements.

A significant implication of this analysis is that the feasibility of directed social investment strategies based on the operation of the pension system will, in the final analysis, depend upon political, rather than technical, considerations and circumstances. Such strategies must,

however, be viewed as being progressive at this time given the balance of political forces in that they promote the public interest by improving pension arrangements for the increasing proportion of the elderly, serve to limit the economic power of institutional investors, accelerate capital accumulation, and offer the possibility of socializing key sectors of market economies. Alternative directed investment strategies based on the pension system, therefore, are one way in which to expand public control and accountability over economic decision-making in the public interest.

10.6 The Political Economy of Pensions and the Coming Pension Crisis:

Summary of Findings

This study has traced the complex series of linkages between the experience of old age, the pension system and broader socio-economic structures in Canada, Britain and the United States. Those interactive factors affecting the formulation and direction of public policy towards pensions and aging over the next three to five decades have been identified and analyzed as to their possible implications. The coming pension crisis in these advanced capitalist countries is a consequence of the interaction between and among a series of conjunctural factors which converge in the future - the inadequate level of retirement income of the elderly, the increasing proportion of the elderly in the population and the costs associated with an aging population, the universal and specific limitations of the private pension system, the underdevelopment of the public pension system, and the corporate sector's appropriation of pension capital as a source of investment - based on the conflicting structurally determined interests of the elderly, labour, capital and government. The information presented in this study strongly suggests that there is an impending pension crisis in Canada, Britain and the United States. Other analytic approaches to the pension issue emphasize different causes for and solutions to the

pension crisis,⁶⁶ but generally corroborate the central conclusion to this Marxist study. ✓

The logic associated with the pension issue inevitably leads from the current economic and social position of the elderly, to the inadequacies of the private and public pension systems, to the symbiotic relationship between the pension system and the finance and industrial sectors, to the private control and direction of capital, and to possible consideration of alternative investment strategies based on the pension system. The pension crisis examined in this study is in the final analysis systemic in origin, as are the limits to reform. The pension crisis, and reform of the pension system, is a potentially volatile political issue because it affects the structurally determined interests of all major groups and institutions in a capitalist political economy : workers, unions, the finance and industrial sectors, the state, and the increasing proportion of the elderly. These conflicting systemic interests converge in the future. The factors underlying the impending pension crisis identified in this study are essentially long-term in nature. This suggests that pensions will be a long-term issue of public policy. The structural pressures propelling the pension systems in these countries towards a crisis will intensify in the future, however, the severity and form which the pension crisis manifests will undoubtedly vary according to national conditions.

The protracted struggle for pension reform, and the impending pension crisis, pose a series of inter-related public policy and political issues about control over investment, capital accumulation, the relationship between investment and economic growth, the social utility of investment, distributional and fiscal equity, the role-typing of the elderly, and how we are to qualitatively live the last 15 to 20 years of our lives. The pension issue transverses and links the personal experience of old age with structural issues. For workers and the elderly, the battle for pension reform will not

be fought out with the decisiveness of a Waterloo or Stalingrad but, rather, will be the next Thirty Years' War. As with Marx's analysis of the legislative struggle to reduce the length of the working day,⁶⁷ there is much political capital to be gained by mobilizing around the concrete demand for pension reform and relating it to broader issues of political economy.

Because aging and pensions policy is "a topic that has not clearly ... been politicized"⁶⁸ in the past, it is necessary for progressives to turn the pension crisis and reform of the pension system into an ideologically defined issue and draw the linkages between the personal, the pension system and the broader structures of economic and political power in capitalist societies. The political economy of pensions and the history of aging is that conjuncture where the personal and the structural meet. We all grow old. What is socially determined is individually experienced. How, then, as individuals are we to confront our own old age? Philosopher and novelist Simone de Beauvoir put it well when she suggested that,

there is only one solution if old age is not to be an absurd parody of our former life, and that is to go on pursuing ends that give our existence a meaning - devotion to individuals, to groups, or to causes, social, political.⁶⁹

Old age as part of the human condition may yet become a meaningful experience for individuals, however, this will ultimately require collective action on the pension issue in order to affect power, politics and social change. As Lange was to suggest, however, for "the economist who is called upon to advise a socialist government... there exists only one economic policy which he can commend... as likely to lead to success. This is a policy of revolutionary courage."⁷⁰ Within this context, the political economy of pensions and strategies for social change may be examined with regard to the transition from capitalism to socialism.

10.7 Pensions and the Transition to Socialism: A Theoretical Perspective

"Capital," Marx and Engels argued, "is social power."⁷¹ Pensions are pure capital. Because "the growth of social capital is effected by the growth of many individual capitals,"⁷² such as pension funds, suggests that "the masses of capital amalgamated... by centralisation... become new and powerful levels of social accumulation."⁷³ For Marx, the financial system in advanced capitalist economies plays an important role in accelerating and facilitating the transition to socialism because of the increasingly social nature of production. Pension funds, as part of the broader financial system, and because of their strategic position within advanced capitalist economies, may therefore potentially "constitute the form of transition to a new mode of production."⁷⁴

Within this framework the role of the pension system in promoting progressive strategies for social change must be examined from a critical perspective. It is suggested that under the specific historical conditions of advanced capitalism, strategies for social change based on the state and occupational pension systems may be incorporated into a broader transitional program for socialism by fulfilling a number of important economic and political objectives. Directed investment strategies pursued through the national social security system accelerate the accumulation and socialization of capital and identify the issue of state power; alternatively, social investment strategies based on the occupational pension system may raise the issue of workers control and shop floor democracy. Thus the concrete struggle for pension reform may result in the politicization of the pension issue and serve as a direct link to broader issues of power and politics in advanced capitalist economies. The pension issue therefore becomes a means of stretching the limits of economism and welfarism under contemporary circumstances. Strategies for social change associated with

the operation of the pension system, as shall be demonstrated, correspond to the Marxist theory of "encroaching control", based on the socialization of capital, and more contemporary theories of radical or militant reformism. Such strategies, as one mode of transition from capitalist to socialism, must therefore be examined in terms of their historical specificity and the relationship between reform and revolution.

Marxist political theory is "for the most part the product of historical episodes and specific circumstances,"⁷⁵ according to Miliband, and has resulted in "contradictory interpretations... tensions, contradictions, and unresolved problems."⁷⁶ Marx and Engels in their theoretical and practical work were cognizant that political strategies, programs and tactics had to be adapted to changing circumstances and that "these measures will of course be different in different countries".⁷⁷ Subsequently, Lenin argued that it was necessary for socialists to work out an independent application of Marxist theory depending upon concrete historical and national conditions. In an early article he emphasized that

we do not regard Marx's theory... as completed and inviolable; on the contrary,... it has only laid the foundation... We think that an independent elaboration of Marx's theory is especially essential...; for this theory provides only general guiding principles, which, in particular, are applied in England differently than in France, in France differently than in Germany, and in Germany differently than in Russia.⁷⁸

In a rarely noted speech to the Fourth Congress of the Communist International in 1922, Lenin acknowledged that "the methods and content of... activities" were "too Russian, [and] reflects Russian experience ... foreigners... cannot be content with hanging it in a corner like an icon and praying to it. Nothing will be achieved that way."⁷⁹ The experience of the Soviet revolution demonstrated, according to Lenin in another address, "that things have turned out differently from what Marx and Engels expected."⁸⁰ The general conclusion is that, "to the extent that historical conditions change, policies correct at one time become incorrect at

another. In discussing tactics, the decisive comparison is not with past tactics but with present facts."⁸¹

To ignore the issue of historical specificity is to reject historical materialism and the dialectical relationship between theory and practice. As Engels concluded, "if conditions have changed in the case of war between nations, this is no less true in the case of the class struggle."⁸² And if conditions change in terms of the class war, so too must the weapons. Strategies for social change associated with the pension system must therefore be understood within the context of the relationship between reform and revolution because the struggle for social reforms may play an important role in promoting a socialist transformation of society. In this regard it is necessary to differentiate between "reforms" as a means to an end, and "reformism" as an end in itself. From an historical perspective

it is clearly the case that the struggle for reforms in a... democratic regime was never taken by classical Marxism to be incompatible with the advancement of revolutionary aims and purposes. On the contrary such a struggle is an intrinsic part of the Marxist tradition.⁸³

"The real issue," Miliband has argued, "is the perspective from which reforms are viewed, what they are expected to achieve, and what else than reforms is being pursued."⁸⁴ From a Marxist perspective the issue is not reform or revolution but, rather, reform and revolution. Depending upon how particular reforms are formulated may therefore result in their promoting socialist policies.

Marx and Engels, and Lenin at a later date, were to stress the complexities of the transition from capitalism to socialism. In terms of economic analysis and political strategies it may be argued that the Marx of Volume I of Capital is considerably different from that found in Volume III; and the Engels that appears in Anti-During is different from that which subsequently emerges in his late correspondence. In these later works the emphasis and focus shifts to problems related to socialist revolution in

developed capitalist societies. Marx and Engels had no formal theory of the state and party;⁸⁵ similarly, they advanced no coherent theory or blueprint with respect to the transition to socialism in advanced capitalist countries. While their early economic analysis emphasized the "immiseration" or "breakdown theory", based on the inherent contradictions of capitalism, they later seemingly postulated an alternative mode of transition based on the gradual socialization of capital.

It is necessary in this regard to differentiate between the "socialization" of capital, as an economic process intrinsic to capitalism, from "socialism", as a system of political power based on the interests of the working class. For Marx, the shift from individual to corporate enterprise, with the accompanying integration, concentration, centralization and interdependence of capital was a concomitant of the increasingly social nature of production - that is, the socialization of productive forces. This process generates new and higher forms of collective economic activity which ultimately results in the "transcendence of the capitalist mode of production within the capitalist mode of production."⁸⁶ Marx emphasized that

no social order ever disappears before all productive forces...have been developed; and new, higher relations of production never appear before the material conditions of their existence have matured in the womb of the old society.⁸⁷

"At a certain level of development," however, "a new mode of production grows within and develops out of the old mode of production."⁸⁸ Thus, Moore concludes, Marx was suggesting that the "economic transition from capitalism to socialism can start before the working class attains state power."⁸⁹ Pension funds, which represent a pool of collective labour power, or "living labour" (to use Marx's term), have systemically increased the socialization of savings and investment in advanced market economies. Pension funds, as the fastest growing pool of capital in capitalist economies,

have become a mechanism for the accumulation of social capital and may therefore accelerate and facilitate the transition to socialist forms of economic organization.

In this respect a parallel may be drawn with Marx's concept of the "political economy of labour".⁹⁰ In the Communist Manifesto it was suggested that

the proletariat will use its political supremacy to wrest, by degrees, all capital from the bourgeoisie, to centralize all instruments of production in the hands of the state...and to increase the total...productive forces as rapidly as possible.⁹¹

Marx subsequently elaborated upon this theme in his 1864 Inaugural Address to the First International. For the first time, according to Harrison,

Marx accepted that the proletariat might establish its own forms of property and principles of productive organization within the capitalist mode of production... Consequently, the working class might...seek to secure, extend, fortify and generalize these achievements. Its advance is now measured not merely by the perfection of its party organization, but by the inroads which it can make on the existing mode of production.⁹²

Such a formulation clearly signals a shift in emphasis with respect to strategies regarding the transition from capitalism to socialism. While Marx was generally pessimistic regarding a peaceful transition to socialism, he nevertheless viewed it as a possibility, at least in some countries, noting that "heed must be paid to the institutions, customs and traditions of various countries, and we do not deny that there are countries, such as America and England, ...Holland, where...workers may attain their [socialist] goal by peaceful means."⁹³ Thus, there may be different strategies or roads leading to socialism, depending upon specific historical and national conditions.

"Instead of a single model of the transition from capitalism to socialism," according to Moore, "the tradition of competing systems presents a large family of models."⁹⁴ The process of "encroaching

control" by workers on the existing capitalist mode of production, as one strategy or model of transition to socialism, is a recurrent theme in Marxist political theory including Marx, Bernstein, the Guild Socialists, Lenin, Trotsky and Gramsci.⁹⁵ "Integral to any theory of encroaching control is the conception of social revolution as a process rather than as an act," according to Hyman, and "while such theories need not exclude the perspective of a 'classic' revolutionary climax, they emphasis the possibility...of inroads within capitalism as a basis for [an] eventual transition to socialism."⁹⁶ Such a strategy envisions or results in "dual power"⁹⁷ or "dual sovereignty",⁹⁸ - that is, a shared sphere of economic and political power between labour and capital. Consequently, there may be a transitional period characterized by a "coexistence of different and...contradictory forms" of economic organization and a "juxta- position of collectivist... and private property."⁹⁹

Dual sovereignty or power is a characteristic often associated with a pre-revolutionary situation.¹⁰⁰ "While the concept of dual power is customarily used in analysis of the control of the state," according to Hyman, it is also of "relevance...in the context of the control of production within the factory."¹⁰¹ Dual power which may evolve out of "encroaching control" has a dialectical character which manifests itself at both the state and shop floor levels. It is within this framework that macro-and-micro alternative investment policies based on the pension system are of relevance and may be incorporated into broader political strategies for social change because macro-alternative investment strategies are a "top down" approach at the state level, whereas micro-social investment strategies represent a "bottom up" initiative from the shop floor. These strategies, as a totality, therefore constitute a dual attack upon capital at different levels of power with respect to the private control and direction of investment. Within the historically specific non-revolutionary context which currently

characterizes advanced capitalist countries, alternative directed investments strategies may become one way in which to promote accelerated capital accumulation and economic development, the gradual socialization of investment and key sectors of advanced market economies, and the democratization of the workplace.

At a macro-economic level, alternative directed investment strategies correspond to the theories proposed by the Austro-Marxists and Tsuru. The leading economic theorists of Austro-Marxism¹⁰² - Hilferding, Renner and Bauer - suggested that the transition to socialism was possible based on the "socialisation of circulation", that is the finance sector, through the conscious, planned organization of the sphere of circulation. "Socialization effected by finance capital," according to Hilferding, "has made it enormously easier to overcome capitalism" because "finance capital has brought the most important branches of production under its control."¹⁰³ The socialization of the economy by finance capital has been reinforced by the expanded role of the modern capitalist state.¹⁰⁴ "State penetration of the economy," according to Renner, has increasingly resulted in "direct state management of the economy."¹⁰⁵ Thus the state under historically specific political circumstances might play an active and progressive role by placing the "commanding heights" of the economy under public control by socializing finance capital.

The transition from capitalism to socialism envisioned by the Austro-Marxists would therefore take the form of an

extension of the welfare functions of the state and of the rational organization of the economy under a regime of public ownership; although the transition...still has to be accomplished by a working-class party through political struggles.¹⁰⁶

According to Renner this may offer a means to achieve a gradual and peaceful transition to socialism.¹⁰⁷ Bauer referred to this as the "slow revolution".¹⁰⁸ This approach may be viewed as the intellectual

progenitor of what has become known as the Swedish theory of "functional socialism",¹⁰⁹ or the "third way", which proposes that the regulation of an economic institution's functions, rather than formal ownership as such, is the critical determinant with respect to establishing public control and accountability. Regulation of the pension system's investment function and directed investment strategies in the public interest correspond to such a formulation.

While some have criticized the theory of "socialisation of circulation" on the grounds that it emphasizes the sphere of circulation over production in capitalist economies,¹¹⁰ it may be argued that under conditions of monopoly capitalism, characterized by an extreme interpenetration and interdependence of industrial and financial capital, and the increasing importance of the finance sector in regulating capitalist economies,¹¹¹ that this distinction is no longer critical in terms of formulating political strategies.¹¹² The systemic and functional fusion of financial and industrial capital, discussed in Chapter 9, suggests that regulation of the state pension system's investment function to promote alternative investment strategies in the public interest may offer the opportunity, under specific political conditions, of "socialising circulation" and key sectors of the economy from the "top down".

A similar strategy was advanced by Tsuru, a Japanese Marxist economist, who argued that in some capitalist countries

the strategy of the transition into socialism can effectively be developed with focus upon the form of [economic] surplus, utilizing all...occassions to make the issue clear and weakening the hold which private capital has on the surplus, gradually shifting it into a socially-controlled fund...The transition of capitalism to socialism certainly does not have to involve the sudden and overall shift of ownership from private hands to public. Surplus is a flow in contrast to the means of production which is a stock...For the purpose of gradual transformation of capitalism into socialism it will be strategically easier in many cases to think in terms of the flow and to take measures connected with the form of the flow.¹¹³

The pension system has increasingly organized and socialized the flow of savings and investment at a macro-economic level in advanced capitalist economies, thereby becoming a potential instrument for the accumulation and direction of capital under public control at the state level. Macro-alternative investment policies through the state pension system may therefore serve as a focal point for the global struggle over the economic surplus, rather than isolated local demands based on the occupational pension system.

Keynes argued in this regard that only the "State... is in a position to calculate... the general social advantage" and will be "taking an even greater responsibility for directly organizing investment" because "investment cannot safely be left in private hands."¹¹⁴ To organize investment for the "general social advantage", it may be argued, will require that it be put under public control. And while Engels cautioned that "state ownership of productive forces is not the solution of [class] conflict;... it provides the formal means, the levers, of that solution."¹¹⁵ As suggested here, the state pension system with a high level of funding and a directed investment strategy, may assume the role of a macro-economic lever facilitating progressive social change in a non-revolutionary situation. While the "results of capitalist socialization are variegated expressions of the historical process from capitalism to socialism," they may also represent "the development of objective and subjective preconditions for a revolutionary transition to socialism."¹¹⁶

Macro-level directed investment strategies are an important link relating pension reform to broader political struggles. As Bernstein noted, the "task of social democracy is to fight for all reforms in the State which... raise the working classes and transform the State in the direction of democracy."¹¹⁷ The concrete demand for pension reform, including an expansion of the state pension system and a macro-directed investment

policy in the public interest, serve to establish the relationship between the "struggle against forms of relations of the state" with the "demand that social needs be met."¹¹⁸ Linking the struggle for pension reform to broader issues of political economy, therefore, has the effect of focusing political attention on the nature of state and class power in modern capitalist societies.

Micro-social investment strategies through the occupational pension system similarly have the potential of identifying important economic and political issues at the point of production, that is at the factory level. Such strategies effectively serve to focus on, and call into question, fundamental management prerogatives such as corporate control over investment decision-making as it affects the solvency of the firm and the security of occupational pension plan benefits. For workers and unions to protect the security of pension benefits may force them to become directly involved in corporate affairs as was discussed in Chapter 5. Micro-social investment strategies, intended to serve the interests of workers at an industrial and community level, despite their technical limitations, may nevertheless become an important political link between the employer-sponsored occupational pension system and the broader struggle for shop floor democracy.

The struggle for pension reform and the control of pension capital may, as a concomitant of the pension crisis, result in the politicization of the pension issue. This in turn may transcend the constraints of trade union economism and welfare statism by stretching the limits of reform. "The capitalist system," Miliband has argued, "produces mystification as to the real nature of its 'relations of production'."¹¹⁹ Limiting pension reform to the issue of benefit adequacy, as important as this may be, perpetuates and reinforces this ideological obscurification because it fails to establish the systemic relationship between the pension crisis and the broader

structures of political and economic power in capitalist regimes. Broadening the focus and thrust of pension reform to include macro-and-micro alternative investment strategies may penetrate this ideological veil, and stretch the limits of economism and welfarism, by challenging fundamental economic and power relationships in advanced capitalist economies.

"The economic struggle," Lenin forcefully argued, "serves as the basis for the...development of the class struggle against the whole capitalist system."¹²⁰ Reforms which stretch the limits of the capitalist system serve as a means of promoting social change. Pension reform, formulated to include alternative directed investment strategies, therefore becomes a "radical reform"¹²¹ which may be incorporated into a broader strategy of "militant reformism".¹²² Gorz has suggested that radical reforms are those "which...prepare [workers] to assume the leadership of society" and "establish certain limiting mechanisms...which restrict or dislocate the power of capital."¹²³ In a non-revolutionary situation, alternative directed investment strategies based on the pension system, it may be argued, represent such an initiative.¹²⁴ The politicization of the pension issue as a result of the conflicting structural interests of the pension actors, and formulating pension reform strategies as a radical demand, may in turn ultimately reveal the systemic origins of the pension crisis. To recognize the constraints imposed by broader social structures is "to point to the limits of reform...and...make possible a strategy of change which attacks the mode of production that imposes the constraints."¹²⁵ Relating the political economy of pensions to the coming pension crisis and to strategies for social change may therefore promote, and ultimately facilitate, a socialist transformation of society.

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OF
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Two Volumes

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CHAPTER I

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For Canada excellent introductory texts are Lewis G. Hall and Basil H. Spurr, The Elements of Insured Pension Plans in Canada (Don Mills, Ont.: Institute of Chartered Life Underwriters of Canada, 1972); the standard reference is Laurence E. Coward, Mercer Handbook of Canadian Pension and Welfare Plans (Don Mills, Ont.: CCH Canadian Limited, 1977) and subsequent editions. An interesting legal text is R.W. McInnes, Welfare Legislation and Benefit Plans in Canada (Toronto: Law Society of Upper Canada, 1974). For the United States, formal legal treatments of private pension plans include Benjamin Aaron, Legal Status of Employee Benefit Rights under Private Pension Plans (Homewood, Ill.: Pension Research Council, Richard D. Irwin, Inc., 1961) and Dan M. McGill, Fulfilling Pension Expectations (Homewood, Ill.: Richard D. Irwin, Inc., 1962). An excellent study is William C. Greenough and Francis P. King, Pension Plans and Public Policy (New York: Columbia University Press, 1976), esp. Chapters 2, 4, 5 and 10. Studies concerning themselves solely with the mechanics of public employee pension plans are Thomas P. Bleakney, Retirement Systems for Public Employees (Homewood, Ill.: Richard D. Irwin, Inc., 1972) and Robert Tilove, Public Employee Pension Funds (New York: A Twentieth Century Fund Report, Columbia University Press, 1976).

2. The seminal work on this subject is Thomas S. Kuhn, The Structure of Scientific Revolutions (Chicago: Phoenix, 1970).
3. C. Wright Mills, The Sociological Imagination (New York: Oxford University Press, 1959), p.71.
4. Gaston V. Rimlinger, Welfare Policy and Industrialization in Europe, America and Russia (New York: John Wiley and Sons, 1971) and Hugh Heclo, Modern Social Politics in Britain and Sweden: From Relief to Income Maintenance (New Haven and London: Yale University Press, 1974).

5. Marios Raphael, op.cit.
6. Kenneth Bryden, op. cit., p.46 and Elizabeth Wallace, op.cit., p.390.
7. For a critical interpretation note Barton J. Bernstein, "The New Deal: The Conservative Achievements of Liberal Reform", Towards A New Past: Dissenting Essays in American History, ed. Barton J. Bernstein (New York: Pantheon Book, 1968), pp. 263-288.
8. Sir William Beveridge, Social Insurance and Allied Services. Cmnd 6404 (London: HMSO, 1942).
9. Michael Bliss, Preface to Leonard Marsh, Report on Social Security for Canada 1943 (Toronto: University of Toronto Press, reprinted, 1975), p. xvi.
10. ibid., p. ix.
11. Leonard Marsh, Introduction to Report on Social Security for Canada 1943, op.cit., note 11, p. xxix. Emphasis added.
12. Peter Newman, The Canadian Establishment, Vol. 1 (Toronto: McClelland and Stewart-Bantam Limited, rev. ed., 1979), p.397.
13. Bliss, op.cit., p. xvii.
14. Tamara K. Hareven, "An Ambiguous Alliance: Some Aspects of American Influences on Canadian Social Welfare", Histoire/ sociale/Social History, Vol. 3 (April 1969), pp. 82-98.
15. Marx developed and elaborated upon the methodology of political economy in Karl Marx, A Contribution to the Critique of Political Economy (Moscow: Progress Publishers, reprinted, 1970). Perhaps the best example of the application of political economy as a method of inquiry is Karl Marx, Pre-Capitalist Economic Formations (New York: International Publishers, 1964).
16. A recent example is the excellent, but neglected, work of John F. Myles, The Aged, The State and the Structure of Inequality. Departmental Working Paper 79-1. Department of Sociology, Carleton University, January 1979.
17. For Britain the reader is referred to Bruce, op. cit; Gilbert, The Evolution of National Insurance in Great Britain: The Origins of the Welfare State, op. cit. and his British Social Policy, 1914-1939, op. cit. More recent works include J.R. Hay, The Origins of the Liberal Welfare Reforms, 1906-1914, op. cit. and his Development of the British Welfare State, 1880-1975; and Thane, op. cit. For Canada, the history of state pension arrangements is presented in Bryden, op. cit.; Guest, op. cit. and Wallace, op. cit. The social history of pensions in the U.S. is outlined in Rubinow, op. cit.; Altmeyer, op. cit.; McKinley and Frase, op. cit. and Lubove, op. cit.
18. For the U.S., Harold L. Wilensky, The Welfare State and Equality: Structural and Ideological Roots of Public Expenditures (Berkeley: University of California Press, 1975). For Britain, Vic George and Paul Wilding, Ideology and Social Welfare (London: Routledge & Kegan Paul, 1976).

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20. Classic treatises from a social policy perspective are Richard M. Titmuss, Essays on the Welfare State (Boston: Beacon Press, 1969) and his Commitment to Welfare (London: George Allen and Unwin Ltd., 2nd edition, 1976). Comprehensive treatments are George, op. cit. and Kincaid, op. cit. More recent critical analyses from a Marxist perspective are Ginsburg, op. cit.; Gough, op. cit. and Shragge, op. cit.
21. Ginsburg, op. cit., note 66, p. 148.
22. Gough, op.cit., note 10, p. 182. Gough mentions pensions seven times: four times descriptively and three times analytically.
23. George, Social Security and Society, op.cit., p.1.
24. Cited in Oskar Lange, On the Economic Theory of Socialism (New York: McGraw-Hill Book Company, 3rd edition, 1966), note 86, p. 132.
25. The Correspondence of Marx and Engels (New York: International Publishers, 1934), p. 246. Emphasis in original. The issue of resource allocation as it affects social security programming under capitalism and socialism is dealt with in an important article by Ramesh Mishra, "Marx and Welfare", The Sociological Review, n.s., Vol. 23 (May 1975), pp. 287-313. In this regard it is necessary to differentiate between "socialism" as a transitional phase and "pure" communism. During the transitional period of socialism the allocation and distribution of scarce resources must still be prioritized, despite the expansion of the social product. As Lange has pointed out, op. cit., pp. 93-94 and 139-141, as the supply of a commodity or service increases during the socialist transition, the price will correspondingly decline. Under "pure" communism, with the expansion of productive forces, all commodities ultimately become "free goods". In terms of resource allocation, the analytic confusion between "socialism" and "communism" has resulted in the transitional period being viewed by some as a type of "cornucopia socialism". With respect to social welfare policy, Mishra, op. cit. pp. 303-305, identifies a continuum ranging from "pure market distribution" to "pure need-based distribution", thereby recognizing the requirement to prioritize the allocation of scarce resources during the period of transitional socialism.
26. Paul M. Sweezy, The Theory of Capitalist Development (New York: Monthly Review Press, 5th edition, 1964), p. 47; for monopoly pricing and its relationship to the labour theory of value, note pp. 54-55.

27. An excellent typological analysis, differentiating between the various forms of state functions which is readily applicable to social welfare analysis is Leo Panitch, "The role and nature of the Canadian State", The Canadian State: Political Economy and Political Power, ed. Leo Panitch (Toronto: University of Toronto Press, 1977), pp. 3-27. Examples of these two broad tendencies are Ginsburg, op. cit. and Gough, op. cit.
28. Alvin W. Gouldner, "Politics of the Mind", For Sociology: Renewal and Critique in Sociology Today (Harmondsworth: Penguin Books, 1975), p. 113.
29. ibid.
30. Alvin W. Gouldner, The Coming Crisis of Western Sociology (New York: Avon Books, 1970), p. 12.
31. Peter N. Stearns, Old Age in European Society (New York: Holmes & Meier, 1976), p.8.
32. C. Wright Mills, The Sociological Imagination (New York: Oxford University Press, 1959), pp. 10-11.
33. This section has been strongly influenced by and draws heavily upon Simone de Beauvoir, Old Age (Harmondsworth: Penguin Books, reprinted, 1978) a classic which should be used with some care and the seminal cultural history of aging by Peter N. Stearns, Old Age in European Society, op. cit. and Peter N. Stearns, "Aging in the Working Class: An Exploratory Essay," Newsletter - European Labor and Working Class History, No. 8 (November 1975), pp. 20-28 and W. Andrew Achenbaum, Old Age in the New Land (Baltimore and London: The Johns Hopkins University Press, 1978) for the U.S. No cultural or social history of aging has yet been written for Britain. A sensitive oral history of the aged, drawn from the British Midlands is Ronald Blythe, The View In Winter: Reflections On Old Age (Markham, Ont.: Penguin Books, 1980). Christopher Lasch, The Culture of Narcissism (New York: W.W. Norton & Company, Inc., 1979), Chapter 9 provocatively treats contemporary attitudes towards aging within the broader context of American cultural values. In this same vein, for Canada, is Daniel Jay Baum, The Final Plateau (Toronto: Burns & MacEachern Limited, reprinted, 1978). William Graebner, A History of Retirement (New Haven: Yale University Press, 1980) is an important book in the tradition of U.S. revisionist labour historiography; for Britain, Chris Phillipson, The Emergence of Retirement (forthcoming). For the packaging of the elderly and retirement practices by the gerontological and social work establishments the reader is referred to Richard B. Calhoun, In Search of the New Old: Redefining Old Age in America, 1943-1970 (New York: Elsevier North Holland Inc, 1978). An important article setting a new direction is Victor W. Marshall and Joseph A. Tindale, "Notes for a Radical Gerontology", International Journal of Aging and Human Development, Vol. 9, No. 2 (1978-79), pp. 163 - 1975.
34. For the history and evolution of occupational and state pension arrangements in Canada the reader is referred to Connant, op. cit.; Latimer, op. cit.; Bryden, op. cit.; Guest, op. cit.; Weitz, op. cit.; Caron, op. cit. and Laurence E. Coward and Nicholas J.M. Simmons, "The Influence of Government on Pension Planning in Canada - a Study of

Recent History and Trends", Employee Benefits Journal, Vol. 4 (Fall 1979), pp. 2-7 and 23. For the U.K. and U.S., footnote 1 supra.

35. Stearns, Old Age in European Society, op. cit., p. 23 and 18-42.
36. *ibid.*, pp. 18-19.
37. Karl Marx, "The Eighteenth Brumaire of Louis Bonaparte", Selected Works, Karl Marx and Frederick Engels (London: Lawrence and Wishart, 1968), p.98.
38. Note the 1859 Preface to Marx's A Contribution to the Critique of Political Economy, op. cit.
39. Frederick Engels, Letter to Joseph Block (September 21, 1890), "The Economic Element Not the Only Determining One", Reader in Marxist Philosophy, eds. Howard Selsam and Harry Martel (New York: International Publishers, 1963), pp. 204 - 205. Referring to the primacy of economics, Engels noted that Marx and he "had to emphasize this main principle and we had not always the time...to allow the other elements included in the interaction to come into their rights." Engels dismissed economic determinists by noting that, "what these gentlemen all lack is dialectic." (Letter to Conrad Schmidt, October 27, 1890). The reciprocal, or dialectical, relationship between culture and structure which makes history a dynamic process, as opposed to it being a form of mechanical reductionism, is exemplified by the work of E.P. Thompson, The Making of the English Working Class (Harmondsworth: Penguin Books, 1968) and Herbert Gutman, Work, Culture and Society in Industrializing America: Essays in American Working-Class Social History (New York: Vintage Books, 1977).
40. Stearns, Exploratory Essay, op. cit., p. 20.
41. Note Achenbaum, op. cit, who states that, "I have excluded the ideas of the inarticulate and the lower classes and [have] concentrated on... a predominantly white, middle-to upper-middle-class population", p. 175. For Canada, neither Terry Copp, The Anatomy of Poverty: The Condition of the Working Class in Montreal, 1897-1929 (Toronto: McClelland and Stewart Limited, 1974), Chapters 2 and 8, nor Michael J. Piva, The Condition of the Working Class in Toronto 1900 - 1921 (Ottawa: University of Ottawa Press, 1979), mention the elderly. An interesting, but notable, exception is Michael B. Katz, "Social Structure in Hamilton, Ontario", Nineteenth-Century Cities - Essays in the New Urban History, eds. Stephen Thernstrom and Richard Sennett (New Haven: Yale University Press, 1969), pp. 209 - 244.
42. Peter N. Stearns, Old Age in European Society, op. cit., p.43. Peter Townsend, The Family Life of Old People (Harmondsworth: Penguin Books, reprinted, 1977) is a study of working class families in east-end London in the mid-1950s which concluded that family obligations towards the elderly were taken more seriously than before. This may be true, but one must differentiate between "obligations" and "respect". Indeed, it may be argued that "obligations" towards the elderly in the modern family generate their own intra-family tensions.
43. David Hackett Fischer, Growing Old in America (Oxford: Oxford University Press, expanded ed., 1978), p. 60.

44. Graebner, op. cit., p. 242.
45. Stearns, Old Age in European Society, op. cit., p. 12. Working class history "from the bottom-up" has been penetratingly dealt with by George Rude, The Crowd in History, 1730 - 1848 (New York: John Wiley & Sons, Inc., 1964) and Eric Hobsbawn, Labouring Men (Garden City, New York: Anchor Books, 1964); E.P. Thompson, op. cit., and Herbert Gutman, op. cit. The notion of various strata of the working class being inarticulate is explored by Jesse Lemisch, "The Radicalism of the Inarticulate: Merchant Seamen in the Politics of Revolutionary America", Dissent: Explorations in the History of American Radicalism, ed. Alfred F. Young (DeKalb: Northern Illinois University Press, 1968), pp. 37-82 and Melvyn Dubofsky, "The Radicalism of the Dispossessed: William Haywood and the IWW" in the same volume.
46. The concept of agism is developed and analyzed by Robert N. Butler, Why Survive? Being Old in America (New York: Harper and Row, 1975). Gerontophobia, or the fear of aging, is explored in A. Comfort, Ageing: The Biology of Senescence (London: Routledge and Kegan, 1964); also Lasch, op. cit., who quite correctly differentiates between medical and social theories of aging.
47. Erdman B. Palmore and Kenneth Manton, "Ageism Compared to Racism and Sexism", Journal of Gerontology, Vol. 28, No.3 (1973), p. 367 and Table 6.
48. Early studies identifying the negative social attitudes towards the elderly and aging include Jacob Tuckman and Irving Lorge, "The Best Years of Life: A Study in Ranking", Journal of Psychology, Vol. 34 (1952), pp. 137 - 149; Raphael Ginzburg, "The Negative Attitude Toward the Elderly", Geriatrics, Vol. 7 (1952), pp. 297 - 302; Jacob Tuckman and Irving Lorge, "Attitudes Toward Old People", Journal of Social Psychology, Vol. 37 (1953), pp. 249 - 260; Nathan Kogan, "Attitudes Toward Old People: The Development of a Scale and an Examination of Correlates", Journal of Abnormal and Social Psychology, Vol. 62 (1961), pp. 44 - 54 and Arnold M. Rose, "The Subculture of the Aging: A Topic for Sociological Research", The Gerontologist, Vol. 2 (1962), pp. 123 - 127.
49. Achenbaum, op. cit., p. 163.
50. The National Council on Aging, The Myth and Reality of Aging in America. Prepared by Louis Harris and Associates (Washington, D.C.: NCOA, 4th edition, 1977) is the most comprehensive and current survey of attitudes towards the elderly.
51. On the cult of youth pervading Western society note Donald O. Cowgill, "The Aging of Populations and Societies", Annals, American Academy of Political and Social Science, Vol. 415 (Spring 1974), pp. 15 - 16 and Lasch, op. cit., Chapter 9. David Gutman, "The Premature Gerontocracy: Themes of Aging and Death in the Youth Culture", Death In American Experience, ed. Arien Mack (New York: Schocken Books, 2nd printing, 1974), pp. 50-82 and Vivian M. Rakoff, "Psychiatric Aspects of Death in America" in the same volume.
52. Graebner, op. cit., p. 215 and 241.

53. de Beauvoir, op. cit., pp. 16-17. For a review of the literature on the relationship between aging and class the reader is referred to Gordon E. Streib, "Social Stratification and Aging", Handbook of Aging and the Social Sciences, eds. Robert Binstock and Ethel Shanas (London: Van Nostrand Reinhold Company, 1976), pp. 160 - 185.
54. On the difference between a stratum and social class note T.B. Bottomore, Classes in Modern Society (London: George Allen & Unwin Ltd., 3d printing, 1967), Chapter II.
55. The National Council on Aging, op. cit., p. 129.
56. On old age and the elderly as a social problem note David Hobman (ed.), The Social Challenges of Ageing (London: Croom Helm, 1978), Preface, p. 11; Nicholas Bosanquet, A Future for Old Age (London: Maurice Temple Smith Ltd., 1978), pp. 1-2; Peter N. Stearns, "Future Shock The Old Folks' Version", Perspective on Aging, (November/December 1979), pp. 11 - 15 and Achenbaum, op. cit., pp. 157 - 164.
57. de Beauvoir, op. cit., p. 250.
58. For a critique of mechanical reductionism as it applies to historical research the reader is referred to E.P. Thompson, "The Peculiarities of the English", The Socialist Register 1965, eds. Ralph Miliband and John Saville (New York: Monthly Review Press, 1965), pp. 352 - 353.
59. Karl Marx, Capital Volume One (London: Lawrence and Wishart, 1954), p. 589 and 601-603, analyzes three forms of the industrial reserve army. He defined the stagnant reserve army, or "Lazarus stratum", as including orphans, paupers, the disabled and the elderly. Marxist labour economists who use a primary and secondary labour market framework are R.C. Edwards, M. Reich, and D.M. Gordon, Labour Market Segmentation (London: D.C. Heath, 1975); Andrew L. Friedman, Industry and Labour: Class Struggle and Work and Monopoly Capitalism (London: The MacMillan Press Ltd., 1977) and Michael Joseph Piore, "Notes for a Theory of Labor Market Stratification", Working Papers for a New Society, No. 95 (1972).
60. Social security expenditures are analyzed as a form of variable capital by James O'Connor, The Fiscal Crisis of the State (New York: St. Martin's Press, 1973), pp. 137 - 145.
61. The notion of the "social wage" occupies an ill defined, confusing and often contradictory position in Marxist theory. On the differentiation between collective and individual goods note Lange, op. cit., pp. 90-91. Ernest Mandel, Marxist Economic Theory, Vol. II (New York: Monthly Review Press, 1970), note, p. 665 defines the "social wage" as being "distinguished by being an allocation in kind"; also pp. 656-665. Sweezy, op. cit., pp. 232-233 refers to social security expenditures as merely being "state transfers" because they "have no connection with the sale of commodities or rendering services to the state...social security and relief payments, subsidies." Ginsburg, op. cit., pp. 25-27, while discussing the "social wage" never defines it. Gough, op. cit., defines the "social wage" as being "welfare benefits in cash and in kind back to the employed and non-employed population", p. 108. He further notes that "there are many problems in deciding where any individual service should be placed", p.160. P. Nikitin, Fundamentals of Political Economy: Popular Course (Moscow: Progress Publishers, second rev.

edition, 1966) defines the "social wage" as payments in cash or in kind paid for "out of the public consumption funds" including "housing, communal services, ... children's institutions, free education, organization of recreation and medical services, buildings for cultural purposes, pensions, etc", p. 297; also S. Lukianenko, "Financing and Administration of Social Security in Socialist Countries", International Social Security Review, XXXI, No. 4 (1978), pp. 419 - 438. Marxist theorists are to be faulted because they have not studied the literature (even that which is in translation) of socialist social security practitioners and administrators who deal extensively with the issue of the "social wage". An interesting attempt to define and compare the "social wage" in the United States and the Soviet Union is "Workers' Incomes in the Soviet Union", Monthly Review, Vol. 4, No. 7 (1953), pp. 234-242; also Bernice Q. Madison, Social Welfare in the Soviet Union (Stanford, California: Stanford University Press, 1968), especially Chapters 4 and 11 and Robert J. Osborn, Soviet Social Policies: Welfare, Equality and Community (Homewood, Ill: The Dorsey Press, 1970), pp. 31 - 53.

62. Bosanquet, op. cit., p.2.

63. de Beauvoir, op. cit., p. 27.

64. *ibid.*, op. cit., p. 604.

CHAPTER 2

1. Karl Marx, "The Eighteenth Brumaire of Louis Bonaparte", Collected Works, Vol. II, Karl Marx and Frederick Engels (Moscow: Progress Publishers, 1979), p. 103.
2. Peter N. Stearns, Old Age in European Society (New York: Holmes & Meier, 1976), p. 7.
3. *ibid.*, pp. 18-19.
4. *ibid.*, p. 43.
5. W. Andrew Achenbaum, Old Age in the New Land (Baltimore and London: The Johns Hopkins University Press, 1978), Chapter 4.
6. On agism note Robert N. Butler, Why Survive? Being Old In America (New York: Harper and Row, 1975). The fear of aging, or gerontophobia, is dealt with by A. Comfort, Ageing: The Biology of Senescence (London: Routledge and Kegan, 1964).
7. Karl Marx, Capital Volume One (London: Lawrence and Wishart, 1954), p. 589 and 601-603.
8. Stearns, op. cit., p. 21.
9. On the lack of an idyllic past for the aged in pre-industrial society note Peter Laslett, "The history of ageing and the aged", An Ageing Population, eds. Vida Carver and Penny Liddiard (Kent: Hodden and Stoughton, 1978), pp. 6-13; Stearns, op. cit., pp. 18-19 and Achenbaum, op. cit., p. 27 and Simone de Beauvoir, Old Age, (Harmondsworth: Penguin Books, reprinted, 1978), Chapters 2 and 3.

10. Frederick Engels, Letter from Engels to Conrad Schmidt, August 5, 1890, Selected Correspondence, Karl Marx and Frederick Engels (New York: International Publishers, 1934), p. 473.
11. For a fascinating literary criticism of this subject the reader is referred to Steven Marcus, Engels, Manchester and the Working Class (London: Weidenfeld and Nicholson, 1974).
12. Donald O. Cowgill, "The Aging of Populations and Societies", Annals, American Academy Political and Social Science, Vol. 415 (Spring 1974), p. 10.
13. Lasslett, op.cit., p. 7. An example of the British literature is Nicholas Bosanquet, A Future for Old Age (London: Maruice Temple Smith Ltd., 1978) who states that, "New initiatives can build on past achievement, which has been considerable", p. 2. A summary of the debate is contained in W. Andrew Achenbaum and Peter N. Stearns, "Old Age and Modernization", Gerontologist, Vol. 18 (June 1978), pp. 307 - 313.
14. Achenbaum, op. cit., p. 143.
15. ibid., pp. 168-169.
16. Paul Corrigan and Peter Leonard, Social Work Practice Under Capitalism: A Marxist Approach (London: Macmillan Press Ltd. 1978), p. 58.
17. Note Leo W. Simmons, The Role of the Aged in Primitive Society (New York: Anchor Books, reprinted, 1970) who reported on the basis of studying nomadic and agricultural tribes that 18 out of 39 tribes treated their elderly harshly by neglecting, abandoning or killing them. This would suggest that the poor treatment of the elderly is not necessarily associated with the capitalist mode of production. Simone de Beauvoir, op.cit., Chapter 2, relies heavily upon Simmons but takes liberties with his data to arrive at a much more traditional, and mechanical, Marxist conclusion concerning the relationship between the mode of production and the position of the elderly.
18. Judith Fingard, "The Winter's Tale: The Seasonal Contours of Pre-industrial Poverty in British North America, 1813-1860", Canadian Historical Association, Historical Papers Conference Proceedings, 1974, p. 66.
19. Royal Commission on the Relations of Capital and Labour, 1889. Report. Minutes of Evidence - Ontario (Ottawa: Queen's Printer and Controller of Stationary, 1889), p. 806. Herein after referred to as the "Royal Commission on the Relations of Capital and Labour".
20. Michael B. Katz, "Social Structure in Hamilton, Ontario", Nineteenth-Century Cities - Essays in the New Urban History, ed. Stephen Thernstrom and Richard Sennett (New Haven: Yale University Press, 1969), Table 8, p. 222.
21. Katz, op. cit., Table 6A, p. 220.
22. Royal Commission on the Relations of Capital and Labour, op. cit., p. 807.

23. Cited in Hugh Heclo, Modern Social Politics in Britain and Sweden: From Relief to Income Maintenance (New Haven and London: Yale University Press, 1974), p. 162.
24. Doreen Collins, "The Introduction of Old Age Pensions in Great Britain", Historical Journal, VIII, 2 (1965), p. 255.
25. *ibid.*, note 5, p. 247.
26. Pat Thane, "Non-Contributory Versus Insurance Pensions 1878-1908", The Origins of British Social Policy, ed. Pat Thane (London: Croom Helm, reprinted, 1981), p. 96.
27. Cited in Kenneth Bryden, Old Age Pensions and Policy-Making in Canada (Montreal: McGill-Queen's University Press, 1974), p. 42.
28. *ibid.*, pp. 42-43.
29. Bryden, *loc. cit.*
30. John G. Turnbull, The Changing Faces of Economic Insecurity (Minneapolis: The University of Minnesota Press, 1966), Table 20, p. 51 cites the decent elderly couple budget (family budget) in 1910 as being \$600 a year. This was related to the median income for a male head 55 years of age and over in 1939 which was \$1,243 a year and adjusted for inflation to put income on a 1910 basis. Between 1913 and 1939 inflation increased by 30 per cent. Therefore the median income of a person age 55 and over in 1910-1913 was \$1,243 minus 30 per cent or \$871 per year. Therefore, proportionately 35 per cent of those over the age of 55 were below the \$600 a year family budget. However, this does not take into account that income decreases with age and therefore is probably an understatement. Based on time-series in the U.S. Department of Commerce, Bureau of Census, Historical Statistics of the United States, Colonial Times to 1957 (Washington, D.C.: GPO, 1957), Series G 147-168, p. 167 and Series E113-139, p. 126.
31. Achenbaum, *op. cit.*, p. 122.
32. Robert W. Kelso, Poverty (New York: Longmans & Co., 1929), p. 156.
33. Economic Council of Canada, Fifth Annual Review: The Challenge of Growth and Change (Ottawa: Queen's Printer, 1968), p. 104.
34. Terry Copp, The Anatomy of Poverty: The Condition of the Working Class in Montreal: 1897-1929 (Toronto: McClelland and Stewart Limited, 1974), pp. 36-38.
35. Michael J. Piva, The Condition of the Working Class in Toronto 1900-1921 (Ottawa: University of Ottawa Press, 1979), pp. 38-51.
36. B.S. Rowntree, Poverty and Progress: A Second Social Survey of York (London: Longmans, 1941), p. 39.
37. J. Stevenson, Social Conditions in Britain Between the Wars (Harmondsworth: Penguin Books, 1977), p. 108.
38. L.M. Grayson and Michael Bliss (eds.), The Wretched of Canada: Letters to R.B. Bennett 1930-1935 (Toronto: University of Toronto Press, reprinted, 1973), Introduction, p. xxiv.

39. *ibid.*, pp. ix-x.
40. *ibid.*, p. 155. Letter from Alma Ward, Calgary, to Prime Minister R.B. Bennett, June 18, 1935.
41. *ibid.*, p. 171. Letter from Mr and Mrs Jonathan A. Stewart, Magdalen Islands, Quebec, to Prime Minister R.B. Bennett, July 19, 1935.
42. *ibid.*, p.60. Letter from Mrs Clara Leibert, McVittie, Saskatchewan, to Prime Minister R.B. Bennett, November 22, 1933.
43. de Beauvoir, *op.cit.*, p. 8.
44. B.S. Rowntree and G.R. Lavers, Poverty and the Welfare State (London: Longmans, 1951), p. 35.
45. Richard M. Titmuss, "Pension Systems and Population Change", Essays on the Welfare State (Boston: Beacon Press, 1969), p. 74.
46. Economic Council of Canada, *op. cit.*, p. 120.
47. Jenny R. Podoluk, Incomes of Canadians. 1961 Census Monograph (Ottawa: Queen's Printer, 1968), Tables 9.4 and 9.5, p. 219.
48. The 1960 data is cited in K. Coates and R. Silburn, Poverty: The Forgotten Englishman (Harmondsworth: Penguin Books, 1970), p.23 and Peter Townsend, Poverty in the United Kingdom: A Survey of Household Resources and Standards of Living (Harmondsworth: Penguin Books, 1979), Table 26.2, pp. 900-901.
49. Cited in Michael Harrington, The Other America: Poverty in the United States (New York: Penguin Books Inc., reprinted, 1966), p. 103.
50. The term is Michael Harrington's.
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108. Townsend, op. cit., p. 822.
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CHAPTER 3

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10. Note for example Christopher Lasch, The Culture of Narcissism (New York: W.W. Norton & Company, Inc. 1979), Chapter 9; John Kettle, The Big Generation (Toronto: McClelland and Stewart Limited, 1980), Chapters 13 and 14; also Landon Y. Jones, Great Expectations: America and the Baby Boom Generation (New York: Ballantine Books, 1980), especially Part IV.
11. Cowgill, op.cit., p.10. On the status of the elderly during modernization and an "optimistic" interpretation note W. Andrew Achenbaum and Peter N. Stearns, "Old Age and Modernization", Gerontologist, Vol. 18 (June 1978), pp. 307 - 313. For the dominant "pessimistic" view Donald O. Cowgill and Lowell D. Holmes, "Aging and Modernization" in Vita Carter and Penny Liddiard (eds.), op. cit., pp. 14-27.
12. P. Paillat, "Europe is Aging: Causes, Aspects and Repercussions of Demographic Aging", International Social Security Review, XXIX, No. 2 (1976), p. 2.
13. Harry Weitz, The Foreign Experience with Income Maintenance for the Elderly. A study prepared for the Economic Council of Canada (Hull: Canadian Government Publishing Centre, 1979), Table 2-1, p.6.
14. ibid.
15. On the difference between the North American and Western European "baby booms" note John Kettle, op. cit., Chapter 21; C.D. Howe Research Institute, Anticipating the Unexpected: Policy Review and Outlook, 1979, (Montreal: C.D. Howe Research Institute, 1979), pp. 130 - 135 and David K. Foot, Canada's Population Outlook: Demographic Futures and Economic Challenges (Ottawa: Canadian Institute for Economic Policy, 1982), Figure 1-1, p. 17.
16. There are two schools of thought concerning the direction of future fertility rates. The dominant school, led by Professor Charles Westoff of Princeton's Centre for Population Research, argues that the downward fertility trend is essentially irreversibly. Historically the trend in fertility has been declining for over 200 years in North America. Today 26 of 33 developed countries have fertility rates below the replacement rate. The opposing position is advanced by Professor Richard Easterlin of the University of Pennsylvania who argues that the recent decrease in fertility is typical of the fertility of large cohorts and, in the future, with smaller cohorts, the fertility

rate should increase. This latter theory is basically grounded in the theory of the labour market. When the labour market situation is favorable people get married and have children; when the job situation deteriorates marriage and children are postponed. Proponents of this theory hypothesize that the birth rate will begin increasing in the 1980s as the cohorts of the "baby bust" mature. It might be noted that the logic of this argument, namely that fertility is related to the business cycle, does not seem to have halted the long-term decline in fertility. However, even accepting this formulation prima facie would suggest that the prolonged period of "stagflation" of the 1970s (and continuing into the 1980s), would further reinforce and depress fertility rates. Preliminary data for Canada based on the 1981 Census confirm the continuing downward trend in fertility. Note for example, Dorothy Lipovenko, "Baby-boom fertility rates plummeting", The Globe and Mail, December 20, 1984 which reports, based on a recent 1984 Statistics Canada study, that the fertility rate in Canada is now the lowest since the 1930s. The elderly are now forecast to constitute 25 to 27 per cent of the population after 2011.

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18. Telephone conversation between Treasury-Secretary Henry Morgenthau, Jr. and Harry Hopkins cited in William Graebner, A History of Retirement (New Haven: Yale University Press, 1980), p. 256.
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23. Note for example, Sir Ferguson Anderson, 'Aging Population "May Cause Social Disaster"', The Times, November 26, 1976. Demographics played an important role in the recent Fowler Green Paper on The Reform of Social Security, 3 vols., Cmnd 9517, 9518, 9519 (London: HMSO, June 1985).

24. Weitz, op.cit., p. 5.
25. Economic Council of Canada, op. cit., p. 24.
26. A Report of the Special Senate Committee on Retirement Age Policies, Retirement Without Tears (Hull: Canadian Government Publishing Centre, 1979), p. 51. This view is also put forward by Leroy O. Stone, "Population Aging and Dependency Ratios in Canada", submission to the Senate Committee on Retirement Age Policies, Ottawa, November 30, 1978. Dr Stone is Chief Demographer for Statistics Canada. Other scholarly efforts which have arrived at similar conclusions are Neil B. Ridler, "Will Canada Be Able to Support its Elderly?", The Aged in Society. Social Science Monograph Series, Vol. III (Saint John: N.B.: University of New Brunswick at Saint John, Spring 1979), pp. 6-16 and Frank T. Denton and Byron G. Spencer, "Some Economic and Demographic Implications of Future Population Change", Journal of Canadian Studies, Vol. 14 (Spring 1979), pp. 81-93.
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28. This analysis relies heavily upon Foot, op. cit., pp. 134-142.
29. Economic Council of Canada, op. cit., p. 28.
30. *ibid.*, p. 32.
31. Foot, op. cit., p. 144.
32. Examples of analyses using this unwarranted assumption are the Special Senate Committee on Retirement Age Policies, op. cit.; Ridler, op. cit. and Denton and Spencer, "Some Economic and Demographic Implications of Future Population Change", op. cit. A popular media piece is Leonard Shifrin, "Pensions needn't be impossible burden for future taxpayers", Leader-Post, February 13, 1982.
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38. For this type of formal economic analysis note Brian J. Powell and James K. Martin, "Economic Implications of An Aging Society in Canada", Survey Research and Special Projects Directorate, Policy Research and Strategic Planning Branch, Health and Welfare Canada. A paper prepared for the National Symposium on Aging, Ottawa, October 25-27, 1978, p.9. Also M. Penning and P. Krishnan, The Social Implications of the Canadian Population: Some Strategies and Solutions. Discussion Paper No. 22. Department of Sociology, University of Alberta, November 1980 and Foot, op. cit., p. 215.
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42. C.D. Howe Research Institute, op. cit., Table 16, p. 133.
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45. C.D. Howe Research Institute, loc. cit., and "Population", CSO Social Trends 10 1980 Edition (London: HMSO, 1980), Chart 1.5, p. 66.
46. "Population", op. cit.
47. ibid. Population projections based on varying fertility assumptions contained in Table 1.2, p. 64.
48. Organization for Economic Co-operation and Development, The 1980 Tax/Benefit Position of a Typical Worker in OECD Member Countries (Paris: OECD, 1980), Chart 1, p. 26 and Chart 3, p. 28.
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51. For the United States these studies include the National Council on Aging, The Myth and Reality of Aging In America. Prepared by Louis Harris and Associates, Inc. (Washington, D.C.: NCOA, 1975); Johnson and Higgins, American Attitudes Toward Pensions and Retirement.

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57. For Canada, the Ontario Royal Commission on the Status of Pensions, op. cit., Table 27, p. 46. In the U.S., Johson and Higgins, op. cit., p. vi.
58. The Employee Benefit Research Institute, op. cit., p. 6 and 14 and Table, p. 32.
59. Age Concern England, op. cit., p. 8 and Table 3, p. 9.
60. The Ontario Royal Commission on the Status of Pensions, op. cit., Table 15, p. 40 and the Saskatchewan Department of Labour, op. cit., p. 158, 169 and 170.
61. A confidential Goldfarb survey commissioned by the Secretary of State Canada cited in Dave Todd, "Canada's Youth: Defeated Hopes, Passion for Security", The Ottawa Citizen, July 11, 1984 and "A Tale of Two Generations" (Editorial), The Ottawa Citizen, July 12, 1984.
62. "The MacLean's/Decima Poll", op. cit., p. 37 and special computer print-out, p. 27.
63. The Ontario Royal Commission on the Status of Pensions, op. cit., p. 49.
64. The literature on this subject includes Vern L. Bengtson and Neal E. Cutler, op. cit.; Robert B. Hudson and Robert H. Binstock, "Political Systems and Aging" and Gordon F. Streib, "Social Stratification and Aging" in the same volume; Kingsley Davis and Pietronella van der Oever, op. cit. Popularized pieces include Bryant Robey and Mary John, op. cit. and Val Ross, "The Coming Old-Age Crisis", Maclean's, January 17, 1983, pp. 24-29.
65. Georg Simmel, Conflict (Glencoe, Ill.: The Free Press, 1955).
66. The classic formulation is S.N. Eisenstadt, From Generation to Generation: Age Groups and Social Structure (New York: The Free Press, 1956), esp. Chapter 6. More recent work on the subject includes Leonard D. Cain, Jr., "Age Status and Generational Phenomena: The New Old People in Contemporary America", Gerontologist, Vol. 7 (June 1967), pp. 83-92. An interesting summary from a social policy perspective is J.K. Martin, "Social Policy Concerns Related to Retirement: The Implications for Research", presentation to the Research Symposium on Canada's Age Structure: Implications for the Future, Simon Fraser University, August 20, 1981.
67. For the United States prior to 1900 note Peter N. Stearns, Old Age in European Society (New York: Holmes & Meir, 1976), p. 35 and W. Andrew Achenbaum, Old Age in The New Land (Baltimore and London: The Johns Hopkins University, 1978), pp. 117-120 for the period between 1914 and 1930. On the role of pensioners' organizations in Canada note Kenneth Bryden, Old Age Pensions and Policy-Making in Canada (Montreal: McGill-Queen's University Press, 1974), p. 183 and pp. 194-200.
68. Jackson K. Putnam, Old-Age Politics in California (Stanford: Stanford University Press, 1970), Chapters 3-4 and Abraham Holtzman, The Townsend Movement: A Political Study (New York: Bookman Associates, 1963).
69. Achenbaum, op. cit., p. 132.

70. Noreen Branson and Margot Heinemann, Britain in the Nineteen Thirties (Frogmore: Panther Books Ltd., 1973), p. 248.
71. Bryden, op. cit.
72. Richard B. Calhoun, In Search of the New Old: Redefining Old Age in America, 1945-1970 (New York: Elsevier North Holland Inc., 1978), p. 3.
73. For recent developments in the U.S. note Ruth H. Jacobs, "Portrait of a Phenomeon - the Gray Panthers: Do They Have a Long-Run Future?", Public Policies for an Aging Population, eds. Elizabeth W. Markson and Gretchen R. Batra (Toronto: D.C. Heath & Co., 1980), pp. 93-103 and William W. Lammers, Public Policy and the Aging (Washington, D.C.: QC Press, 1983), pp. 58-67. In the United States in 1984 the four largest organizations of the elderly represented 20 million people: the American Association of Retired Persons, 15 million; the National Council of Senior Citizens, 4 million; the National Alliance of Senior Citizens, 770,000 and the National Association of Older Americans, 225,000 people. In Canada the four largest pensioners' organizations represent approximately 765,000 people: National Pensioners and Senior Citizens Federation, 500,000; The Quebec Federation of Elderly, 200,000; Canadian Council of Retirees, 35,000 and Canadian Pensioners Concerned, 30,000 people. In Britain the major organization, the National Federation of Old Age Pensions Association, represents 1 million people or about 11 per cent of the elderly.
74. The Honourable William G. Davis, Premier of Ontario, "Notes for An Address to the Joint meeting of Toronto Society of Financial Analysts and Toronto Association of Business Economists", Toronto, April 22, 1982, p. 13.
75. An example of the uncritical acceptance of the "aging-conservatism" thesis is the Ontario Economic Council, The Ontario Economy to 1987 (Toronto: Queen's Printer, 1977), p. 25.
76. For a refutation of the "aging-conservatism" thesis note Norval D. Glenn, "Aging and Conservatism", Annals, American Society of Political and Social Science, Vol. 415 (September 1974), pp. 176-187; John Creighton Campbell and John Strate, "Are Old People Conservative?", The Gerontologist, Vol. 21, No. 6 (1981), pp. 580-591; Elizabeth B. Douglas, William P. Cleveland, and George L. Maddox, "Political Attitudes, Age and Aging: A Cohort Analysis of Archival Data", Journal of Gerontology, Vol. 29, No. 6 (1974), pp. 666-675 and Robert E. Garland, "The Politics of Aging", The Aged in Society. Social Science Monograph Series, Vol. III (Saint John, N.B.: University of New Brunswick at Saint John, Spring 1979), pp. 25-39. Robert H. Binstock, "Aging and the Future of American Politics", Annals, The American Academy of Political and Social Science, Vol. 415 (September 1974), pp. 199-212, deals with related issues, although his conclusions would seem to contradict his own evidence and arguments.
77. Campbell and Strate, op. cit., pp. 590-591.
78. Douglas et al, op. cit.
79. For example Martin Harrop, "The Changing British Electorate", Political Quarterly (1982), pp. 385-402.

80. American Council of Life Insurance Health Insurance Association of America, op. cit., p. 3.

CHAPTER 4

1. The major reports of government in the current public policy review analyzing the retirement income system in Canada and making prescriptive recommendations for reform are the Comite D'Etude Sur Le Financement Du Regime De Rentes Du Quebec Et Sur Les Regimes Supplementaires de Rentes (Confirentes^t), La Securite Financiere des Personnes Agreees au Quebec, (Quebec City: Editeur Official Du Quebec, 1977); Economic Council of Canada, One in Three: Pensions for Canadians to 2030 (Ottawa: Canadian Government Publishing Centre, 1979); Retirement Without Tears. The Report of the Special Senate Committee on Retirement Age Policies (Ottawa: Canadian Government Publishing Centre, 1979); Task Force on Retirement Income Policy, The Retirement Income System in Canada: Problems and Alternative Policies for Reform, 2 Volumes (Ottawa: Canadian Government Publishing Centre, 1979); Report of the Royal Commission on the Status of Pensions in Ontario, 10 Volumes (Toronto: Government of Ontario, 1980); the Government of Saskatchewan, Saskatchewan Labour, Brief To The National Pensions Conference: Reform of Canada's Retirement Income System - A Saskatchewan View (Regina: Pensions Branch, Saskatchewan Labour, 1981); Ontario Select Committee on Pensions, Final Report (Toronto: Government of Ontario, Queen's Printer, April 1982); the Province of British Columbia, Developing a Pension Policy for the Future: A Discussion Paper (Victoria: Information Services, June 1982); the Government of Canada, Better Pensions for Canadians (Ottawa: Minister of Supply and Services Canada, 1982); Special Committee on Pension Reform, Report of the Parliamentary Task Force on Pension Reform (Ottawa: Canadian Government Publishing Center, 1983) and the Government of Ontario, Ontario Proposals for Pension Reform: Adapting to Social and Economic Transformation (Toronto: Queen's Printer, 1984).
2. Health and Welfare Canada, Policy Research and Strategic Planning Branch, The Incomes of Elderly Canadians in 1975. Social Security Research Report No. 06 (Ottawa: Minister of National Health and Welfare, February 1979), pp. 37-38.
3. The Honourable Monique Begin, Minister of Health and Welfare Canada, "Notes for an Address by the Honourable Monique Begin to the Association of Canadian Pension Management", Toronto, September 17, 1980, p. 2 and 5. Emphasis added.
4. On this point note the interesting, but somewhat arcane work by Hugh Mosley, Public and Private Social Welfare Systems: A Working Paper on the Underdevelopment of State Social Welfare Institutions in the United States. Publication series of International Institute for Comparative Social Research, Wissenschaftszentrum. (Berlin: December 1978). Other Marxist labour economists using a primary and secondary labour market framework are R.C. Edwards, M. Reich, and D.M. Gordon, Labour Market Segmentation (London: D.C. Heath, 1975); Andrew L. Friedman, Industry and Labour: Class Struggles and Work and Monopoly Capitalism (London: The MacMillan Press Ltd., 1977) and Michael Joseph Piore, "Notes for a Theory of Labour Market Stratification", Working Papers for a New Society, No. 95 (1972).

5. On the early history of occupational pension plan arrangements in the United States note William C. Greenough and Francis P. King, Pension Plans and Public Policy (New York: Columbia University Press, 1976), Chapters 2, 4 and 5. For Britain, early employer-based pension plans are described in Gerald Rhodes, Public Sector Pensions (Toronto: University of Toronto Press, 1965), Chapter 1.
6. The early studies from which the extent of occupational pension plan coverage in Canada can be reconstructed are the National Employment Commission survey, April 1937 reproduced in Leonard Marsh, Report on Social Security for Canada 1943 (Toronto: University of Toronto, reprinted, 1975), Appendix V, pp. 301-303; Queen's University, Industrial Relations Section, School of Commerce and Administration, Industrial Retirement Plans in Canada (Kingston, Ont.: Queen's University, 1938) and the Dominion Bureau of Statistics, Survey of Welfare Plans in Industry 1947 (Ottawa: Queen's Printer, May 1950).
7. For the impact of British civil service pension arrangements on early Canadian public sector pension plans note Marios Raphael, Pensions and Public Servants: A Study of the Origins of the British System (Paris: Mouton, 1964) and Rhodes, op. cit. American private sector pension plan influence on Canadian developments is traced in Luther Connant, A Critical Analysis of Industrial Pension Systems (New York: MacMillan, 1922) and M.W. Latimer, Industrial Pension Systems in the United States and Canada, 2 vols. (New York: Industrial Relations Counselors Inc, 1932).
8. On this subject note Stephen Scheinberg, "Invitation to Empire : Tariffs and American Economic Expansion in Canada", Business History Review, Vol. XLVII, No. 2 (1973), pp. 218-238 and Wallace Clement, The Canadian Corporate Elite : An Analysis of Economic Power (Toronto: McClelland and Stewart Limited, 1975), pp. 110-112, who identifies a permanent American corporate presence in Canada in the mid-1920s.
9. Queen's University, op. cit., p. 16.
10. On the history of welfare capitalism in North America and its influence on corporate industrial relations policy, the interested reader is referred to Stuart D. Brandes, American Welfare Capitalism, 1880-1940 (Chicago and London : University of Chicago Press, 1976), Chapter 11; James Weinstein, The Corporate Ideal in the Liberal State (Boston: Beacon Press, 1968), Chapter 2; Robert H. Wiebe, The Search for Order, 1877-1920 (New York: Hill and Wang, 1967), Chapters 2, 5 and 7; Sidney Fine, Laissez-Faire and the General-Welfare State (Ann Arbor: University of Michigan, 1956), Chapter 11; Daniel Nelson, Managers and Workers (Madison: University of Wisconsin Press, 1975), Chapter 4 and Alvin Finkel, Business and Social Reform in the Thirties (Toronto: James Lorimer & Company, 1979), Chapter VI. Important articles in the historiography include Stephen J. Scheinberg, "Progressivism in Industry: The Welfare Movement in the American Factory", Annual Report, Canadian Historical Association, 1967, pp. 184-197 and David Brody, "The Rise and Decline of Welfare Capitalism", Workers in Industrial America: Essays on the Twentieth Century Struggle, ed. David Brody (New York: Oxford University Press, 1980), pp. 48-81. On the pension movement note Donna Allen, Fringe Benefits: Wages or Social Obligations? (Ithaca: Cornell University, 1969), Chapter 5. For Britain, Alex Rubner, Fringe Benefits: The Golden Chains (London: Putnam, 1962), Introduction and p. 135.

11. For welfare capitalism as an ideology note Scheinberg, "Progressivism in Industry", op cit.; as part of a union substitution policy see Brody, op. cit.
12. Francis Green, "Occupational Pension Schemes in British Capitalism", Cambridge Journal of Economics, Vol. VI (September 1982), p. 268.
13. Queen's University, op. cit., pp. 304-305.
14. President's Commission on Pension Policy, Coming of Age: Toward a National Income Policy (Washington, D.C.: PCPP, February 1981), p. 12.
15. Statistics Canada, Pension Plans in Canada, 1980 (Ottawa: Minister of Supply and Services Canada, 1982), p. 15.
16. This methodological approach was first suggested in an unprecedented gesture to the private pension industry by Harry Weitz, Chief, Pension Section, Statistics Canada, "Private Pension Plan Coverage." Address to the Canadian Pension Conference, Ottawa, October 21, 1976. This first became official in Statistics Canada, Pension Plans in Canada, 1976 (Ottawa: Minister of Industry, Trade and Commerce, 1978), p. 15 and later in Statistics Canada, Pension Plans in Canada, 1980, op. cit., pp. 14-16.
17. Greenough and King, op. cit., Chapter 1.
18. Queen's University, op. cit., p. 17.
19. Louis Ascah, Government and Private Pensions in Canada (Ph.d dissertation, Department of Economics, McGill University, March 1979), Table F-4, p. 173.
20. Dominion Bureau of Statistics, op. cit., Table 4.
21. Statistics Canada, Pension Plans in Canada, 1980, op. cit., Table 1, p. 61.
22. Statistics Canada, Pension Plans in Canada, 1976, op. cit., p. 16.
23. For the U.S., Daniel J. Beller, "Coverage Patterns of Full-Time Employees under Private Retirement Plans", U.S. Social Security Bulletin, Vol. 44 (July 1981), p. 6; Government Actuary, Occupational Pension Schemes, 1975 - Fifth Survey (London: HMSO, 1978), Tables 3.4 and 3.5, pp. 10-11 and for Canada, Statistics Canada, Pension Plans in Canada, 1980, op. cit., Table 1, p. 61.
24. Note for example the President's Commission on Pension Policy, op. cit., Table 11, p. 27 and for Britain, Department of Employment Gazette, August 1971.
25. Statistics Canada, Pension Plans in Canada 1974 (Ottawa: Queen's Printer, 1972), p. 129.
26. Government Actuary, Occupational Pension Schemes 1975 - Fifth Survey, loc. cit. and Appendix A5, p. 107.
27. Laurence E. Coward, Mercer Handbook of Canadian Pension and Welfare Plans (Don Mills, Ont.: CCH Canadian Limited, 1977), pp. 241-242.

28. R. Prefontaine and Y. Balcer, Job Mobility and its Implications for the Employer-Sponsored Pension System in Canada. A study undertaken for the Task Force on Retirement Income Policy, Department of Finance, Ottawa, September 1977 (Mimeo).
29. R. Prefontaine and Y. Balcer, "Interaction of Labour Mobility Rates and Vesting Rates on Years of Pensionable Service", The Retirement Income System in Canada: Problems and Alternative Policies for Reform, Vol. II, Appendix 8, p. 8 and 5.
30. Economic Council of Canada, People and Jobs: A Study of the Canadian Labour Market (Ottawa: ECC, 1976), p. 11.
31. Note for example Lenore E. Bixby and Virginia Reno, "Second Pensions Among Newly Entitled Workers : Survey of New Beneficiaries", U.S. Social Security Bulletin, Vol. 34 (November 1971), p. 5; Walter W. Kolodrubetz and Donald M. Landay, "Coverage and Vesting of Full-Time Employees under Private Retirement Plans", U.S. Social Security Bulletin, Vol. 36 (November 1973), pp. 20-36; Walter W. Kolodrubetz, "Characteristics of Workers with Pension Coverage on the Longest Job", Reaching Retirement Age, U.S. Department of Health, Education, and Welfare, Social Security Administration (Washington D.C.: GPO, 1976), p. 162 and Health and Welfare Canada, Survey on Retirement in Canada - Retirement in Canada, Vol. II (Ottawa: Minister of National Health and Welfare, 1977), Table I 10.
32. Economic Council of Canada; One in Three : Pensions for Canadians to 2030, op. cit., p. 73.
33. For the legal basis of vesting and the deferred wage doctrine the reader is referred to Dan M. McGill, Fulfilling Pension Expectations (Homewood, Ill.: Richard D. Irwin, Inc., 1962), Chapters 4-6; R.W. McInnes, Welfare Legislation and Benefit Plans in Canada (Toronto: Law Society of Upper Canada, 1974), pp. 57-66 and Donna Allen, Fringe Benefits: Wages or Social Obligations, op. cit., Chapters 1 and 2.
34. Coward, op. cit., p. 242.
35. The minimum legislative norm for vesting standards in Canada for those provinces having pension benefits legislation, except two, is age 45 and 10 years service. That is, an employee must satisfy both the age and service requirement in order to have an irrevocable right to the employer's contribution for the pension entitlement. The two exceptions are: Manitoba with vesting (employer contributions) with 2 years service (effective 1990) and lock-in (employee's contribution) at age 45 and 10 years service; Saskatchewan amended its Pension Benefits Act, effective July 1, 1981, to provide an improved vesting requirement based on a factor 45 formula, that is, vesting and lock-in occur when a person's age and service total 45. Despite the fact that the minimum legislative norm for vesting is 45 and 10, in fact, the prevailing vesting standard is 10 years service. Note Statistics Canada, Pension Plans in Canada, 1978 (Ottawa: Minister of Supply and Services, 1979), Table XVII, p. 44.
36. For Britain note the Labour Research Department, Guide to Company Pension Schemes and The Social Security Pensions Act 1975 (London: LRD Publications Ltd, 1977), pp. 25-26. For the U.S., Bankers Trust, The Pension Reform Act (An Explanation) (Englewood Cliffs, N.J.: Prentice - Hall, Inc., 2nd printing, 1974), pp. 145-147.

37. This point is made by Ascah, op. cit., p. 90.
38. Testimony to the U.S. Senate Subcommittee on Labor cited in Ralph Nader and Kate Blackwell, You and Your Pension (New York: Grossman Publishers, 1973), p. 11.
39. On this subject G.S. Becker, "Investment in Human Capital: A Theoretical Analysis", The Journal of Political Economy, Vol. LXX, Supplement (October 1962), pp. 9-49; Jacob Mincer, "On-the-Job Training : Costs, Returns, and Some Implications", The Journal of Political Economy, Vol. LXX, Supplement (October 1962), pp. 50-73 and Walter Y.Oi, "Labor as a Quasi-Fixed Factor", The Journal of Political Economy, Vol. LXX (December 1962), pp. 538-555.
40. J.C. Kincaid, Poverty and Equality in Britain : A Study of Social Security and Taxation (Harmondsworth : Penguin Books, rev. ed., 1975), p. 132.
41. Roy Lubove, The Struggle for Social Security, 1900-1935 (Cambridge, Mass.: Harvard University Press, 1968), p. 129.
42. K. McNaught and David J. Bercuson, The Winnipeg General Strike : 1919 (Don Mills: Longman Canada Limited, 1974), p.66. The threatened loss of pension benefits during an industrial dispute remains a contemporary issue in the Canadian industrial relations system. This is because most pension plans stipulate and interpret the "45 and 10" vesting rule as meaning 10 years of consecutive service. Therefore a strike would break this continuity of service. On this subject note, "Management Right: Most Strikers Lose Benefits", Financial Times, July 7, 1975.
43. Quoted in Green, op. cit., p. 271.
44. Quoted in Lubove, op. cit., p. 119.
45. Six jurisdictions have introduced Pension Benefits Acts since 1965, including Ontario, Quebec, Manitoba, Alberta, Saskatchewan and the federal government. New Brunswick, Newfoundland and British Columbia are currently contemplating implementing legislation. Presently 85 per cent of all pension plan members are covered by a Pension Benefits Act.
46. Labour Research Department, op. cit., pp. 22-23.
47. Occupational Pensions Board, Improved Protection for the Occupational Pension Rights and Expectations of Early Leavers. Cmnd 8271 (London: HMSO, June 1981), pp. 25-28. Also on this issue Roger Hardman, "Pensions-Scandal of the golden handcuffs", The Sunday Times, May 17, 1981; Roger Hardman, "Pensions-Part 2: Cost of cutting the golden handcuffs", The Sunday Times, May 24, 1981 and John Whitmore, "How employees lose out when they change jobs", The Times, April 23, 1982.
48. Those U.S. studies prior to 1974 dealing with vesting and the "take-up" rate include an early study in the mid-1940s by Dan M. McGill, Pensions: Problems and Trends (Homewood, Ill: Huebner Foundation for Insurance Education, University of Pennsylvania, 1955), pp. 33-34 and p.40; Kolodrubetz, op. cit.; Private Welfare and Pension Plan

Legislation, Hearings, General Subcommittee on Labor, Committee on Education and Labor, U.S. House of Representatives, 92d Cong., 1st and 2nd Sess. (Washington, D.C.: GPO, 1970), p. 262; Kolodrubetz and Landay, op.cit.; and Nader and Blackwell, op. cit.; p. 5. In the post-ERISA period (1974), note the studies by the Pension Rights Center and Bureau of Labor Statistics cited in Jeremy Rifkin and Randy Barber, The North Will Rise Again: Pensions, Politics and Power in the 1980s (Boston: Beacon Press, 1978), note 5, p. 259 and Gayle Thompson Rogers, "Vesting of Private Pension Benefits in 1979 and Change From 1972", U.S. Social Security Bulletin, Vol. 44 (July 1981), pp. 12-29. For Canada, note the Régie des Rentes, Les Régimes de Retraite au Québec. No. 3 (December 1976), pp. 29-37; Health and Welfare Canada, Survey on Retirement in Canada - Retirement in Canada, Vol. II (Ottawa: Minister of National Health and Welfare, 1977), Table II0 and "A Survey of the Awareness and Attitudes of Ontario Residents towards Retirement Programs and Particularly Pension Plans Survey." Prepared by Southam Marketing Research Services. Report of the Royal Commission on the Status of Pensions in Ontario, Vol. III, Background Studies and Papers (Toronto: Queen's Printer, 1980), p. 36 and 72. For Britain, Rosalind M. Altmann, "An Analysis of Occupational Pensions in Great Britain", Applied Economics, Vol. 14 (1982), pp. 553-577.

49. Rogers, op. cit., p. 15.
50. Altmann, op. cit., Table 3, p. 562.
51. Statistics Canada, Pension Plans in Canada 1976, op. cit., p. 57.
52. Unfortunately there are no empirical studies indicating the proportion and distribution of partial versus full retirement pensions paid. The logic of the situation suggests, however, that the number of partial pensions paid is considerable as a result of high labour market mobility.
53. Prefontaine and Balcer, "Interaction of Labour Mobility Rates and Vesting Rates", op. cit., p. 6.
54. Frank T. Denton, Melvin L. Kliman, and Byron G. Spencer, Pensions and the Economic Security of the Elderly (Montreal: C.D. Howe Institute, 1981), p. 65.
55. The Economic Council of Canada, People and Jobs, loc. cit., determined that people will change jobs on average 6 times during their working life. The "Survey of Awareness on Attitudes of Ontario Residents towards Retirement Programs", prepared for the Ontario Royal Commission on the Status of Pensions, found that people will change jobs 6.6 times over their life. Assuming entry into the labour force is age 20 will result in a person staying on a job, on average, 6.8 to 7.5 years ($65-20 = 45/6 = 7.5$ years and $65-20 = 45/6.6 = 6.8$ years). Thus, a person would have to be able to transfer pension entitlements between at least two jobs ($2 \times 6.8 = 13.6$ years or $2 \times 7.5 = 15$ years) in order to satisfy the "45 and 10" vesting rule.
56. Calculated from Statistics Canada, Consumer Price Index (Monthly publication 62-001).
57. J.E. Pesando and S.A. Rea, Jr., Public and Private Pensions in Canada: An Economic Analysis (Toronto: Ontario Economic Council), Table 7, p. 50.

58. Peter Townsend, "Social Policy in Conditions of Scarcity", New Society, May 10, 1979, p. 320.
59. Martin B. Tracy, "Maintaining Value of Social Security Benefits During Inflation: Foreign Experience", U.S. Social Security Bulletin, Vol. 99 (November 1976), p. 33.
60. William M. Mercer Limited, Brief to Royal Commission on the Status of Pensions in Ontario (Toronto: William M. Mercer Limited, February 1978), p. 3.
61. *ibid.* The most vigorous case put forward for limited indexation by a private pension industry spokesperson is Geoffrey N. Calvert, Pensions and Survival: The Coming Crisis of Money and Retirement (Toronto: A Financial Post Book, MacLean - Hunter Ltd., 1977), pp. 69-74.
62. Lois S. Copeland, "Consumer Price Indexes for the Elderly: British Experience", U.S. Social Security Bulletin, Vol. 45 (January 1982), p. 21.
63. Cited in Kincaid, *op. cit.*, pp. 156-157.
64. Copeland, *loc. cit.*
65. As reported in "Special Report: Inflation, Fixed Incomes - The Inflationary Squeeze on the Over-65s", Business Week, May 22, 1978, p. 43.
66. Calvert, *loc. cit.*
67. Statistics Canada, Pension Plans in Canada, 1980, *op. cit.*, Text Table XXV, p. 58.
68. Cited in Pensions & Investments, April 9, 1979, p. 32 and Robert Tilove, Public Employee Pension Funds (New York: A Twentieth Century Fund Report, Columbia University Press, 1976), Table 2.14, p. 44.
69. Raphael, *op. cit.*, p. 82 and Income Data Services Ltd., Public Sector Pensions. Study 188 (London: IDS, February 1979), pp. 24-25.
70. Calculated from the Government Actuary, Occupational Pension Schemes, 1979 - Sixth Survey (London: HMSO, 1981), Table 10.1, p. 56.
71. Labour Research Department, *op. cit.*, p. 10 and p. 23.
72. For Canada, federal Treasury Board, Report on Certain Aspects of the Public Service Employee Pension Program. Prepared by Tomensen - Alexander Ltd. (Ottawa: Minister of Supply and Services, 1978), p. 131. For Britain, the Government Actuary, Sixth Survey, *op. cit.*, Table 10.2, p. 57 and the National Association of Pension Funds, Survey of Occupational Pension Schemes - 1978 (Croydon: NAFP, 1979), Table 44, p. 25.
73. Greenwich Research Associates, Large Corporate Pension Funds 1980 Report to Participants (Greenwich, Conn.: Greenwich Research Associates, 1980), p. 77.
74. Tracy, *op. cit.*, Table 1, p. 38. Also the European Economic Communities, Comparative Tables of the Social Security Systems in the

Member States of the European Communities (Brussels: ECC, 8th ed., July 1974), Table VII-3.

75. In Canada, for example, between 1962 and 1980 the average industrial wage (AIW) rose by 7.7 per cent per annum as compared with 5.6 per cent for the Consumer Price Index (CPI).
76. International Labour Organization, Pensions and Inflation (Geneva : ILO, 1977), p. vi.
77. On this subject note Paul Fischer, "The Social Security Crisis: An International Dilemma", International Social Security Review, XXXI, No. 4 (1978), pp. 333-396 and "Social Security in trouble everywhere", Pensions & Investments, July 16, 1979, p. 6.
78. The result of this review was the Tomensen - Alexander report prepared for federal Treasury Board, op. cit.
79. For examples of the pressure in Britain brought against the indexation of public employee pension plans note Adam Raphael, "Time to curb inflation - proof pensions", The Observer, November 18, 1979; Richard Sleight, "Pensions - Protection against rising prices", The Guardian, February 2, 1980; "Trimming the pyramid", The Economist, January 12, 1980 and John Bell, "The £ 2bn pension gap", The Sunday Times, September 14, 1980. These pressures resulted in the 1980 Scott Committee review which, unexpectedly, recommended the retention of public sector pension plan indexation.
80. Note for example Public Service International, "Pensions in the Public Service", Conditions of Employment of Public Employees (London: PSI, 1972).
81. William M. Mercer's Ltd. quoted in the The Globe and Mail, April 25, 1975.
82. Labour Research Department, op. cit., p. 22.
83. The classic Marxist analysis of modern corporation behaviour under advanced capitalism is Paul A. Baran and Paul M. Sweezy, Monopoly Capital (New York: Monthly Review Press, 1966), especially Chapter 2.
84. Economic Council of Canada, One in Three, op. cit., p. 83 and 86.
85. L.W.C.S. Barnes, R.B. Crozier, and G.T. Jackson, Submission to the Pension Policy Review Task Force Examining the Adequacy of Pension Arrangements in Canada (Ottawa: n.p., April 28, 1977).
86. Economic Council of Canada, One in Three, op. cit., p. 86 and 82.
87. The reader is referred to Paul A. Baran, "Marxism and Psychoanalysis", The Longer View, ed. John O'Neil (New York and London: Monthly Review Press, 1969), p. 101. For a formal economic treatment note Baran's "Economics of Two Worlds" in the same volume.
88. Calculated from Statistics Canada, Trusted Pension Plans Financial Statistics (Ottawa and Hull: Minister of Trade and Commerce, various years). Computed as an internal rate of return.

89. Economic Council of Canada, One in Three, op. cit., Table 8.1, p. 81.
90. E.A. Johnson, "The Effects of Inflation and Currency Instability on Pension Schemes in the United Kingdom", Pensions and Inflation, International Labour Organization (Geneva: ILO, 1977), pp. 104-105.
91. Income Data Services Ltd., Guide to Pension Schemes (London: IDS, 1980), p. 83.
92. James E. Pesando, The Impact of Inflation on Financial Markets in Canada (Montreal: C.D. Howe Research Institute, February 1977), p. 69.
93. This general conclusion is based on the work of Mosley, op. cit.; R.C. Edwards, M. Reich, and D.M. Gordon, op. cit.; Andrew L. Friedman, op. cit. and Michael Joseph Piore, op. cit.
94. For the U.S. the reader is referred to Beller, op. cit.; for Britain, the Government Actuary, Occupational Pension Schemes 1979, op. cit. and Statistics Canada, Pension Plans in Canada, 1980 op. cit.
95. In the United States in 1978, 20.2 per cent of the current elderly were in receipt of full or partial retirement pensions. This compares with 31.6 per cent for Britain in 1979. For Canada, the figure of 37.7 per cent cited in text Table 4.7 includes all types of pensions paid and therefore is an overstatement. The corresponding figure for the U.K. for all pensions-in-pay received by the current elderly is 38.9 per cent.

CHAPTER 5

1. Donna Allen, Fringe Benefits : Wages or Social Obligations? (Ithaca: Cornell University, 1969), p. 241 and 256.
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29. Total compensation costing relationships can be identified and deduced as follows

$$\begin{aligned}
 (1) \quad TC &= F_T + W \\
 (2) \quad TC &= F_T (P + F_O) + W \\
 (3) \quad F_O &= F_T - P \\
 (4) \quad \% P_{gp} &= \frac{\$P}{\$TC(F_T + W)}
 \end{aligned}$$

Where: TC is total compensation
 F_T is total fringe benefit costs
 P is occupational pension plan cost
 F_O is fringe benefit costs net of occupational pension plan cost
 W is wages
 $\% P_{gp}$ is occupational pension plan cost as a percentage of gross payroll

Based on actual historical data from Thorne, Stevenson and Kellogg, Employee Benefit Costs in Canada for 1953 and 1979/80 the following relationships can be derived by substitution.

1953

From equations (4) and (1)

$$\% P_{gp} = 4.0\% = \frac{\$137P}{\$515F_T + \$2,860W} = \frac{\$137P}{\$3,375TC} = 4.0\%$$

From equation (3)

$$F_O = \$515F_T - \$137P = \$378$$

1980

From equations (4) and (1)

$$\% P_{gp} = 5.2\% = \frac{\$974P}{\$6,025F_T + \$12,711W} = \frac{\$974P}{\$18,736TC} = 5.2\%$$

From equation (3)

$$F_O = \$6,025 - \$974 = \$5,051$$

Therefore the percentage change between 1953 and 1980 for the key variables is

$$\begin{aligned} P &= 610.9\% \\ W &= 344.4\% \\ F_T &= 1,069.9\% \\ F_o &= 1,236.2\% \\ TC &= 455.1\% \end{aligned}$$

Therefore the following relationships hold

$$\begin{aligned} P &> W \\ P &> TC \\ F_o &> P \\ F_T &> P \end{aligned}$$

30. National Association of Pension Funds, Survey of Occupational Pension Schemes - 1978 (Croydon: NAPF, 1979), Table 20, p. 11.
31. Calculated from Statistics Canada, Trusted Pension Plans Financial Statistics (Ottawa and Hull: Minister of Trade and Commerce, various years). Computed on the basis of an internal rate of return. Also the Economic Council of Canada, One in Three : Pensions for Canadians to the Year 2030 (Ottawa: Canadian Government Publishing Centre, 1979), Table 8.1, p. 81.
32. E.A. Johnson, "The Effects of Inflation and Currency Instability on Pension Schemes in the United Kingdom", Pensions and Inflation, International Labour Organization (Geneva: ILO, 1977), pp. 104-105.
33. See for example, "Pension Funds get Help From a Rising Market", Business Week, April 5, 1976, p. 23.
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39. *ibid.*, p. 33.
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44. ibid., p. 196 and Table 6-11, p. 199.
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46. Faltermayer, op. cit., p. 81.
47. Special Committee on Pension Reform, Report of The Parliamentary Task Force on Pension Reform (Ottawa: Canadian Government Publishing Center, 1983), Table 11.1, p. 85.
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50. Statement by Mr James M. Black, executive vice-president of the American Association of Institutional Management, April 1967, quoted in Allen, op. cit., p. 259.
51. On this point note Rubner, loc. cit.
52. Wistert, op. cit., pp. 4-5.
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61. *ibid.*
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66. *ibid.*, p. 6.
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CHAPTER 6

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83. Five out of the ten provinces in Canada have established sinking funds to repay their loans to the CPP investment fund. Ontario, the province which has largest cumulative debt to the CPP investment fund (Table 7.17), and has benefitted the most, does not have a repayment schedule or a sinking fund to repay its debt. Ontario has a veto over changes to the CPP.
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85. Current total contributions to the Canada Pension Plan are 3.6 per cent of earnings up to the yearly maximum pensionable earnings (ympe). The value of CPP benefits, on an actuarial basis, greatly exceed the contributions which pay for them. The real value of CPP benefits on what is technically called a full-cost basis (excluding liabilities), as distinct from the fully-funded contribution rate (full-cost rate plus liabilities) for total contributions is in the order of 8 to 10 per cent. CPP contributions are thus undervalued by nearly 100 to 250 per cent. The current contribution rate of 3.6 per cent has generated an investment fund of \$16 billion as of 1979. If the various reform proposals to increase the CPP benefit formula from 25 to 50 per cent career average adjusted earnings were implemented it would mean that total contributions would have to increase to 16 per cent (full-cost rate) and the CPP investment fund would double in size from \$16 to \$32 billion. In Western Europe, the average total contribution to social security retirement systems is nearly 20 per cent; in the U.S. the total contribution for social security benefits is 13.8 per cent. The Canada Pension Plan is severely underfunded when compared with other industrialized countries.
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87. Myles, op. cit., p. 27.
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CHAPTER 8

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6. Sweezy, op. cit., p. 255.
7. Karl Marx quoted in Sweezy, loc. cit.
8. Sweezy, loc. cit.
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14. ibid., p. 238.
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16. Statistics Canada, Trusted Pension Plans Financial Statistics 1980 (Ottawa: Minister of Supply and Services, 1982), p. 26.
17. Note for example "Why pension funds are quitting the institutions", Business Week, May 15, 1978, pp. 105-106 and "How Pension Fund Assets Grew So Quickly", Business Week, March 21, 1984, pp. 226-228.
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23. Daniel J. Baum, The Investment Function of Canadian Financial Institutions (New York: Praeger Publishers, 1973), p. 69.
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25. Alix Granger, Don't Bank On It (Toronto and New York: Double Day and Company Inc., 1981), p. 29.
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CHAPTER 9

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40. Porter (1961), op. cit.; Neufeld (1972), op. cit.; Clement (1972), op. cit.; Granger (1979), op. cit.; and Stewart (1980), op. cit.
41. Calculated from Stewart, op. cit., Appendix I-6, pp. 274-276.
42. This is based on an analysis by the author of 1983 annual reports for the top 5 banks, life insurance companies, and trust companies in Canada.
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56. Derived from Stewart, op. cit., Appendix I-6-7, pp. 274-277.
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58. Newman, op. cit., note, p. 119.
59. On the recent corporate reorganization of Power Corporation note Robert Giddens, "Power Corp. Studying Switch into an Operating Company", The Globe and Mail, May 4, 1984; on Power's earlier ownership of Imperial Life and the Laurentide Group note Pierre Fournier, The Quebec Establishment (Montreal: Black Rose Books, 1976), pp. 22-24 and Chart 2, p. 23.
60. Based on 1980 data this is arrived at as follows

| <u>Conglomerate</u> | <u>Pension Assets</u> <u>(\$ Billion)</u> |
|--|--|
| Edper Investments | |
| Royal Trustco (trusteed) | \$19.7 |
| Power Corporation | |
| Montreal Trustco (trusteed) | 6.4 |
| Great-West Life (segregated) | 0.4 |
| Canadian Pacific | |
| In-house managed fund | 1.4 |
| Total | \$27.9 billion |
| Total pension fund assets (trusteed and insured) were \$64.9 billion as of 1980. | |
61. Porter, op. cit., pp. 255-263.
62. McNutty, op. cit., p. 78.

63. On this subject the reader is referred to E.H. Chamberlin, Theory of Monopolistic Competition (Cambridge, Mass.: Harvard University Press, 8th ed., 1963), Chapters 1 and 4.
64. Scott, op. cit., pp. 94-95.
65. Paul P. Harbrecht, S.J., Pension Funds and Economic Power (New York: The Twentieth Century Fund Inc., 1959), p. 4 and 29.
66. ibid., pp. 198-199.
67. Pavan Sahgal, "Who Owns Corporate America?", Pensions & Investment Age, October 31, 1983, p. 24 and 25.
68. Kotz, loc. cit.
69. Richard Minns, Take-over the City: The Case for Public Ownership of Financial Institutions (London: Pluto Press, 1982), pp. 69-70.
70. "The Strength of the Insurance Companies", op. cit.
71. Eric Evans, "Pension Funds Make Corporate Waves", The Financial Post, June 25, 1983.
72. Note for example Wentz, op. cit., p. 34 and 94; "Pension Fund Money Begins To Find Its Way Into Real Estate", The Globe and Mail, April 20, 1981 and "How Pension Money May Get To Oil Search", The Financial Post, December 12, 1981.
73. Note Edward Malca, Pension Funds and Other Institutional Investors (Lexington, Mass: Lexington Books, 1975), pp. 2-7; William C. Greenough and Francis P. King, Pension Plans and Public Policy (New York: Columbia University Press, 1976), p. 146 and "P & I Index Top 100 Stocks", Pensions & Investments, January 7, 1980, p. 2.
74. Wood Gundy, Evaluation of Investment Performance Report, December 31, 1979 (Toronto: Wood Gundy, 1979), p. MA-3.
75. Minns, Pension Funds and British Capitalism, op. cit., pp. 46-47.
76. Calculated from the U.S. Department of Commerce, Statistical Abstract of the United States, 1982-83 (Washington, D.C.: GPO, 1982), Series No. 916, p. 544.
77. Department of Finance Canada, Economic Review April 1982 (Ottawa: Canadian Government Publishing Centre, 1982), Table 4.6, p. 44.
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139. Titmuss, op. cit., p. 243.
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CHAPTER 10

1. The type of funding or financing of state pension arrangements and alternative directed investment strategies are both issues which have arisen periodically throughout the twentieth century. With respect to the funding debate, this issue arose in Britain in 1910 when Lloyd George was evolving the national health insurance scheme. While his officials favored advanced funding, Lloyd George had strong objections to the state accumulating a fund. The advocates of pre-funding prevailed and for the next few decades state health insurance was funded. On the subject of capitalizing the state pension system in Britain note W.J. Braithwaite, Lloyd George's Ambulance Wagon: The Memoirs of W.J. Braithwaite (London: Methuen, 1957), pp. 27-29, 45-46 and 88-90. A similar debate arose with respect to the financing of the U.K. central government superannuation scheme. Note Marios Raphael, Pensions and Public Servants: A Study of the Origins of the British System (Paris: Mouton, 1964), p. 154.

An active debate on social security funding took place within the French labour movement between 1911 and the early 1930s according to Peter N. Stearns, Old Age in European Society (New York: Holmes & Meir, 1976), pp. 48-50 and 61. When the social

security retirement system was introduced in the U.S. in 1935 the initial plans for a large old-age insurance trust fund were scrapped on the basis of Keynesian economic principles, according to W. Andrew Achenbaum, Old Age in the New Land (Baltimore and London: The Johns Hopkins University Press, 1978), p. 137. The issue has never seriously been raised again in the U.S.

In Britain, the 1942 Beveridge Report, the foundation of the welfare state, favored the advanced funding of state retirement pensions on a "full-cost" basis. While the actual implementation of Beveridge's recommendation effectively abandoned pre-funding, it was not until 1959 that the advanced funding of state retirement pensions in Britain was formally relinquished. Note W. Beveridge, Social Insurance and Allied Services, Cmd 6404 (London: HMSO, 1942), Appendix A, esp. pp. 177-182 and Income Data Services Ltd, Public Sector Pensions. Study 188 (London: IDS, February 1979), p. 3. The issue was subsequently raised by Richard Crossman, Minister of State for Social Services, and architect of the Labour government's earnings-related state pension plan (1969), who advocated some type of advanced funding. Note Richard Crossman, The Diaries of a Cabinet Minister, Volume Three, Secretary of State for Social Services, 1968-70 (London: Hamish Hamilton Ltd, 1977), pp. 153-154 and 176.

The creation of an investment fund was central to the implementation of the Canada/Quebec Pension Plans. Note for example Richard Simeon, Federal-Provincial Diplomacy: The Making of Recent Policy in Canada (Toronto: University of Toronto Press, 1972), Chapter 3.

Alternative directed investment strategies, based the investment function of financial intermediaries, have been actively debated as well, particularly in the U.S. The original impetus for directed investment laws come from the Populist movement in the 1890s. According to Kimball, "from a surprisingly early date insurance was regarded...as a business affected with a public interest" and "there were indications that the law might treat insurance as a full-fledged public utility." During the New Deal, the Fletcher Bill (1933) authorized the Reconstruction Finance Corporation to purchase the preferred stock of insurance companies and raised "the unnerving possibility that the federal government might control life insurance assets by becoming a major stockholder." According to Orren, between 1965 and 1972, at least 13 American states proposed directed investment laws and "often only narrowly missed passage." On these subjects note Spencer L. Kimball, Insurance and Public Policy (Madison: University of Wisconsin Press, 1960), pp. 304-308 and Karren Orren, Corporate Power and Social Change: The Politics of the Life Insurance Industry (Baltimore: The Johns Hopkins University Press, 1974), esp. Chapters 2, 3 and 7.

2. International Labour Office, The Cost of Social Security, Ninth International Inquiry, 1972-1974 (Geneva : ILO, 1979), p. 7. Also on this subject S. Boye, "The Cost of Social Security, 1960-71 : Some National Economic Aspects", International Labour Review, Vol. 115, No. 3 (1977), pp. 305-325.
3. Report of the Royal Commission on the Status of Pensions in Ontario, Summary Report : A Plan for the Future (Toronto : Queen's Printer, 1980), p. 61.

4. A. Asimakopulos and J.C. Weldon, "On the Theory of Government Pension Plans", Canadian Journal of Economics, Vol. 1, No. 4 (1968), p. 700.
5. Robert Tilove, Public Employee Pension Funds (New York : A Twentieth Century Fund Report, Columbia University Press, 1976), p. 137.
6. International Labour Office, Into the Twenty-first Century: The Development of Social Security (Geneva : ILO, 1984), p. 86.
7. Asimakopulos and Weldon, op. cit., p. 705. A more recent and forceful statement, significantly altering his earlier position, and acknowledging the limitations of welfare state PAYGO financing of pension arrangements, is A. Asimakopulos, "Comments on Pensions", Pensions: Public Solutions vs. Private Interest. Proceedings of the Canadian Centre for Policy Alternatives (Ottawa : CCPA, 1982), p. 118-125.
8. There is considerable technical and political controversy surrounding the funding of state pension arrangements. In general there are two schools of thought : advocates of traditional pay-as-you-go (PAYGO) financing and proponents of advanced funding. The literature on the subject is extensive. The literature is reviewed in the International Social Security Association, Methods of Financing Social Security: Their Economic and Social Effects. Studies and Research No. 15 (Geneva : ISSA, 1979) and the International Labour Office, Financing Social Security: The Options - An International Analysis (Geneva : ILO, 1984). Perhaps the most balanced exposition on the subject is Tilove, op. cit., Chapter 8. Other works, from the alternative perspectives, to which the interested reader is referred are Asimakopulos and Weldon, op. cit. and A. Asimakopulos, "Financing Canada's Public Pensions - Who Pays", Canadian Public Policy, Vol. X, No. 2 (1984), pp. 156-166; Nathan Keyfitz, "Why Social Security is in Trouble", The Public Interest, No. 46 (Winter 1980), pp. 102-119 and N. Barr, "Myths My Grandpa Taught Me", The Three Bank Review, No. 124 (December 1979), pp. 27-55. Recent articles on funding as it affects pension reform in Canada are Clayton Sinclair, "Pension cost could top \$5 billion", Financial Times, February 20, 1984 and Laurence Coward and David Stouffer, "Big increases in CPP contribution may be coming", The Globe and Mail, August 24, 1984.
9. The formal funding methods described here are discussed in the Report of the Royal Commission on the Status of Pensions in Ontario, Vol. V, Ontario and the Canada Pension Plan (Toronto : Queen's Printer, 1980), p. 89.
10. An excellent review of the merits and demerits of PAYGO financing is Paul Fischer, "The Social Security Crisis : An International Dilemma", International Social Security Review, XXXI, No. 4 (1978), p. 391.
11. The funding issue and the level of required contributions must be related to demographic scenarios. Three general demographic cases can be identified : stable population state, zero population growth (ZPG), that is a declining population, and the "baby boom" scenario. In the case of a stable population state, in the short-run, the

full-funding rate is greater than the PAYGO rate. In the long-run the full-funding rate is equal to the PAYGO rate. With zero population growth (ZPG), as is now the case in many European countries, the full-funding rate is greater than the PAYGO rate in both the short and long-terms. Under the "baby boom" scenario the PAYGO contribution rate is lower than the full-funding rate in the short-term; however, in the long-term the PAYGO rate is higher than the full-funding contribution rate because of population aging and continues to increase after maturity as the unfunded liability is carried forward.

12. Government of Saskatchewan, Saskatchewan Labour, Reform of Canada's Retirement Income System - A Saskatchewan View. Brief to The National Pensions Conference (Regina : Saskatchewan Labour, March 1981), p. 6.
13. Eveline M. Burns, "Social Insurance in Evolution", American Economic Review, Vol. 34, Supplement, part 2 (March 1944), p. 199.
14. E.M. Murphy, "Methods of Financing Social Security : An Introductory Analysis". Paper presented to the International Social Security Association, Research Conference, Ottawa, May 28-30, 1979, pp. 21-22.
15. International Labour Organization, L'investissement, aspects des institutions d'assurances sociales (Geneva : ILO, 1939).
16. An extensive technical literature exists on the relationship between social security systems and economic development in industrialized and underdeveloped countries. The general literature on the subject includes Philip Cutright, "Political Structure, Economic Development and National Social Security Programs", American Journal of Sociology, Vol. 70, No. 5 (1965), pp. 537-550; Paul Fischer, "Social Security and Development Planning : Some Issues", U.S. Social Security Bulletin, Vol. 30, No. 6 (1967), pp. 13-25 and V. George, Social Security and Society (London : Routledge & Kegan Paul, 1973), p. 15 and 18-19. Harry Weitz, The Foreign Experience with Income Maintenance for the Elderly. A Background Study prepared for the Economic Council of Canada (Ottawa : ECC, 1979) and Boye, op. cit., deal with the general relationship between social security financing and economic development. Bernice Madison, Social Welfare in the Soviet Union (Stanford : Stanford University Press, 1968), p. xviii treats the subject from a socialist perspective.

The literature as it pertains to underdeveloped or less developed countries (LDCs) includes E.M. Kassalow (ed.), The Role of Social Security in Economic Development. Research Report 27 (Washington, D.C. : GPO, 1968); the International Labour Organization, Social Security and National Development (Geneva : ILO, 1978); Elliot Sclar, "Aging and Economic Development", Public Policies for an Aging Population, eds. Elizabeth W. Markson and Gretchen R. Batra (Toronto : D.C. Heath & Co., 1980), pp. 29-38; The World Bank, World Development Report 1980 (New York : World

Bank, 1980); J. Shome and A. Saito, Creating Capital Through Social Security Institutions: The Asian Experience. Studies in Domestic Finance No. 61 (Washington, D.C. : World Bank, 1980); Christine Cockburn, "The Role of Social Security Development", International Social Security Review, XXXIII, No. 3-4 (1980), pp. 337-358; Mohamed Gourja, "The Contribution of Social Security to Development Objectives : The Role of Income Support Measures", International Social Security Review, XXXIV, No. 1-2 (1981), pp. 131-150; "Round Table Meeting on 'The Role of Social Security In Development'", International Social Security Review, XXXIV, No. 1-2 (1981), pp. 112-121 and "Singapore : A Survey of the Sovereign Municipality", The Economist, December 29, 1979, pp. 5-24.

The impact of income maintenance programs on various aspects of economic policy in advanced market economies is dealt with by Bruno Stein, Work and Welfare in Britain and the USA (New York : John Wiley & Sons, 1976) and Orley Ashenfelter and James Blum (eds.), Evaluating The Labor-Market Effects of Social Programs (Princeton, New Jersey : Industrial Relations, Department of Economics, Princeton University, 1976).

17. Current alternative macro-economic investment strategies through the state pension system, or similar modalities, for Sweden are described in Rudolf Meidner, Employee Investment Funds: An Approach to Collective Capital Formation (London : George Allen & Unwin, 1978); Rolf Eiden and Bernt Ohman, "Economic Democracy Through Wage-Earner Funds", paper presented to the International Industrial Relations Association, Fifth World Congress, Paris, September 3-7, 1979; Staffan Sonning, "The Employee Fund Issue Moves Toward a Decision", Current Sweden, No. 309 (October 1983), p. 1-10; Claes-Goran Kjellander, "Employee Shareholder Funds Introduced", Current Sweden, No. 326 (October 1984), p. 4-5. The investment policy of the Quebec Pension Plan (QPP) through the Caisse de Dépôt is outlined in the Quebec Deposit and Investment Fund, Annual Report, 1966 (Montreal : n.p. 1966), p. 6 and the 1982 Annual Report of the Caisse. Singapore's housing program through the provident (state) fund is reviewed in "Singapore : A Survey of the Sovereign Municipality", op. cit. The proposal for the French wage-earners fund is reported in "The Employee Funds Debate", European Industrial Relations Review, No. 117 (October 1983), pp. 17-18. The proposal for a Canadian Public Investment Fund is described by Information Services Saskatchewan, "Public Investment In Canada A Background Paper Presented at First Ministers Conference, Ottawa, Investment Projects in the 1980s", News Release, February 4, 1982.

Various proposals for alternative macro-economic investment strategies based on the state pension system have been advanced by national labour confederations and major unions including the Canadian Union of Public Employees, Brief to the Royal Commission on the Status of Pensions in Ontario (Ottawa : CUPE, December 1977); the Canadian Labour Congress, Submission to the Royal Commission on the Status of Pensions in Ontario (Ottawa : CLC, March 23, 1978) and the United Steel Workers of America (Canadian Region), "Policy Statement : The Economy." Canadian Policy Conference, Fall 1979 (Toronto : USW, 1979) and their "Discussion Paper : Pensions." Canadian Policy Conference, Fall 1979 (Toronto: USW 1979). For Britain the key document is the Trades Union Congress, The Role of the Financial Institutions. TUC Evidence to the Committee to Review the Functioning of Financing Institutions (London : TUC, July 1979).

18. Harry Weitz, op. cit., p. 19.
19. A. Kirstina Liljefors, "Canada's Retirement Income System and Recent Economic Developments : A Discussion Paper", Pensions and Inflation: An International Discussion, International Labour Office (Geneva : ILO, 1977), p. 127.
20. The seminal work on this subject is Meidner, op. cit.
21. Walter Korpi, The Working Class In Welfare Capitalism (London : Routledge & Kegan Paul, 1978), pp. 327-332.
22. Brian Burkitt, Radical Political Economy: An Introduction to the Alternative Economics (Frome : Wheatsheaf Books, 1984), p. 180. Emphasis added.
23. ibid., p. 182 and note 14, p. 184.
24. On this subject Simeon, op. cit.
25. D.V. Smiley, Canada in Question: Federalism in the Seventies (Toronto: McGraw-Hill Ryerson, 2nd edition, 1976), Chapters 1 and 4-5 and Keith G. Banting, The Welfare State and Canadian Federalism (Kingston, Ont.: McGill-Queen's University Press, 1982), Chapters 4-7.
26. Quoted in Joan Fraser, "Quebec May Interfere in Pension Fund Operations", Financial Times, July 25, 1977.
27. 1982 Annual Report of the Caisse de Dépôt et Placement (Montreal: n.p. 1982), p. 19.
28. The rate of return for the Caisse de Dépôt was calculated from the Caisse de Dépôt et Placement du Quebec, Annual Report (Montreal: n.p., various years) on the basis of the long-term weighted average yield for equities, bonds and other instruments for the General Fund (QPP). The rate of return for all trustee (private and public sector) pension plans was calculated on the basis of an internal rate of return from Statistics Canada, Trusteed Pension Plans Financial Statistics (Ottawa and Hull: Minister of Trade and Commerce, various years), Tables I and II, p. 7 and p. 9. For the CPP, the dollar weighted average bond yield on old money since the inception of the plan was calculated from the CPP Annual Reports (n.p.: National Health and Welfare, various years). All figures are inflation adjusted. Also note "Quebec Fares Better than Ottawa in Handling Pension Fund: Parizeau", The Montreal Gazette, December 14, 1982. As a result of the Caisse's policies it has earned an estimated \$1.5 billion more in investment income than the CPP between 1966 and 1981.
29. Articles on the Caisse de Dépôt's operation and investment practices include Joan Fraser, "PQ May Force-Feed Tonic to Ailing Firms", Financial Times, November 13, 1977; Richard Daignault, Jr., "Pepin Confirms Wall Street Threat", Montreal Star, May 4, 1978; Wendie Kerr, "Policy Shift Revives Row Over Caisse's Role", The Globe and Mail, April 11, 1981; Wendie Kerr, "Rate Policy Change Stirs Caisse Controversy in Quebec", The Globe and Mail, April 13, 1981; Kim Blanton, "Purchase of Domtar is one step among several: Quebec Fund Aims for the Province's Development", Pension & Investment Age, September 14, 1981, p. 6; "Pension funding PQ takeovers - grit",

Calgary Herald, September 18, 1981; "Caisse Raises Stake in Provigo", The Globe and Mail, March 16, 1982 and "Caisse buys more shares in Reitmans", The Globe and Mail, August 2, 1983.

30. This controversy must be understood within the unique context of Canada's federal-provincial structure and the federal government's attempts to thwart the Parti Quebecois government's nationalist aspirations.
31. Canadian Union of Public Employees, op. cit., p. 101.
32. United Steel Workers of America (Canadian region), "Discussion Paper: Pensions", op. cit., p. 5 and 3.
33. United Steel Workers of America (Canadian region), "Policy Statement: The Economy", op. cit., p. 3.
34. Trades Union Congress, "Pension Funds" (Resolution No. 20), 1979 Congress.
35. Trades Union Congress, The Role of the Financial Institutions, op. cit. A summary is contained in Richard Minns, Take Over The City: The Case For Public Ownership of Financial Institutions (London: Pluto Press, 1982), pp. 50-53.
36. Minns, op. cit., p. 74.
37. Paul P. Harbrecht, S.J., Pension Funds and Economic Power (New York: The Twentieth Century Fund Inc, 1959), p. 270.
38. American Federation of Labor, Pension Plans Under Collective Bargaining - A Reference Guide for Trade Unions (Washington, D.C.: AFL, December 1954), p. 4. Emphasis added.
39. The literature on the subject is extensive. For the United States the seminal work which triggered the recent policy discussion is Jeremy Rifkin and Randy Barber, The North Will Rise Again: Pensions, Politics and Power in the 1980s (Boston: Beacon Press, 1978); A.H. Raskin, "Pension Funds Could Be The Unions' Secret Weapon", Fortune, December 31, 1979, pp. 64-67; Donald A. Smart, Investment Targeting: A Wisconsin Case Study (Madison: Wisconsin Centre for Public Policy, 1979); Michael T. Leibig, Social Investments and the Law: The Case for Alternative Investments. Studies in Pension Fund Investments 3 (Washington, D.C.: Conference on Alternative State and Local Policies, August 1980); Richard Parker and Tamsin Taylor, Strategic Investment: An Alternative for Public Funds. Studies in Pension Fund Investments 6 (Washington, D.C.: Conference on Alternative State and Local Policies, 1979) and Lawrence Litvak, Pension Funds and Economic Renewal (Washington, D.C.: The Council of State Planning Agencies, 1981). For Britain, John Hughes, Funds for Investment (London: Fabian Society, March 1976) and for Canada, David Pell and Susan Wismer, Pension Funds, Wage-Earner Funds as Strategies for Reindustrialization and Development In Canada (forthcoming).

The controversial nature of social investing, especially in the U.S., through the private pension system is indicated by the voluminous output contained in pension industry trade journals and the financial media. A sampling of this literature includes Julie Rohrer, "Unions Discover 'Capital Clout'", Pensions & Investments,

December 19, 1977, p. 6; "Pensions as Political Clubs Pose Grave Danger", Pensions & Investments, March 27, 1978, p. 8; Paul R. Merriam, "Labor Urged to Use Pensions as Clout", Pensions & Investments, April 10, 1978, p. 31; "Clout to Become an Important Issue for Funds", Pensions & Investments, April 24, 1978, p. 6; Anise Wallace, "Panel Pans Social Investing: In Whose Best Interest?", Pensions & Investments, June 19, 1978, p. 27; "Social Investing Gains Backers; Critics Wary", Pensions & Investments, October 23, 1978, p. 39; Les Stern, "Social Investing: A Volatile Issue Surfaces", Pensions & Investments, October 23, 1978, p. 1 and 22. "Hospital Union Fund Trustees Ban South African Investments", Pensions & Investments, February 13, 1983, p. 3; Natalie McKelvy, "States Offer Conflicting Opinions of Prudence of African Investments", Pensions & Investments, July 17, 1978, p. 2. Donald A. Smart, "Investment In the Public Interest", Pension World (May 1979), pp. 22-24; Charles Epstein, "Illinois Funds Pushed to Invest 'Socially'", Pensions & Investments, October 13, 1980, p. 2; "Targeting Pension Investments", Business Week, September 7, 1981, pp. 87-88. "Public Funds to Spur Economy?", Pensions & Investment Age, September 28, 1981, p. 2 and 44; Steve Hemmerick, "Union Plan Money Funds Construction", Pensions & Investment Age, October 12, 1981, p. 1 and 50; Clare Minick, "NYC Funds Aim at Construction Loans", Pensions & Investment Age, February 1, 1982, p. 1 and 42; Kimberly Blanton, "Public Fund Administrators Feel the Heat from Housing", Pensions & Investment Age, February 15, 1982, p. 11 and 22; Steve Hemmerick, "Union Leaders Focus on Fund Investments", Pensions & Investment Age, February 15, 1982, p. 11 and 18 and Linda Savage Ruhue, "AFL-CIO Encourages Unions to Put Funds in Construction", Pension & Investment Age, March 1, 1982 p. 1 and 65.

Pension fund managers have rapidly learned to profit from social investing as indicated by Pavan Sahgal, "'Social Purpose' Accounts Started", Pensions & Investment Age, February 15, 1982, p. 23 and Harvey Shapiro, "Wall Street's New 'Social Responsibility' Funds", Saturday Review, August 26, 1972, pp. 43-45.

On European pension fund social investment practices note Jocelyn F. Gutchess, "Pension Investment: The European Model", AFL-CIO American Federationist, Vol. 87, No. 6 (1980), pp. 11-16 and George Sanderson and Paul Malles, "Profit Sharing and Employee Investment Funds", The Labour Gazette (May 1978), pp. 183-188. For Canada, Ed Finn, "Pension Power: Using Pensions to Retire a Union Weakness, The Facts, Vol. 1 (February - March 1979), pp. 147-150.

40. The key trade union studies on social investment are the American Federation of Labor and Congress of Industrial Organizations, Investment of Union Pension Funds (Washington, D.C.: AFL-CIO, circa 1980) and their Pensions: A Study of Benefit Fund Investment Policies (Washington, D.C.: IUD, AFL-CIO, May 1980).
41. For a critique of "trade union capitalism" in the United States during the 1920s and 1930s note William Z. Foster, American Trade Unionism: Principles, Organization, Strategy, Tactics (New York: International Publishers Co., Inc., reprinted, 1970), pp. 91-111.
42. Quoted in Alex Rubner, Fringe Benefits: The Golden Chains (London: Putnam, 1962), p. 151.
43. Harbrecht, op. cit., pp. 97-98.
44. Raskin, op. cit., p. 65.

45. Raskin, op. cit., p. 64.
46. Raskin, op. cit., p. 66.
47. Les Stern, "UAW Granted 'Social' Investment Voice", Pensions & Investments, November 5, 1979, p. 1 and Raskin, loc. cit., p. 65.
48. Richard M. Titmuss, "The Irresponsible Society", Essays on the Welfare State (Boston: Beacon Press, 1969), pp. 240.
49. General and Municipal Workers' Union, Pensions in the 1980's - A Programme for Action. Annual Congress, 20th-24th May 1979, Torquay (Surrey: GMWU, April 1979), p. 7.
50. General and Municipal Workers' Union, The GMWU Policy on Pensions - Up to 1978 and Beyond. Annual Congress 6th-10th June 1976, Bournemouth (Surrey: GMWU, May 1976), p. 18.
51. John Hughes, Principal of Ruskin College, Oxford, in his 1977 Stockton Lectures quoted in Harry Lucas and Sue Ward, Studies for Trade Unionists: Pensions Bargaining (London: Workers' Educational Association, June 1977), pp. 18-19.
52. On the various theories of "people's capitalism" note Harry W. Laidler and Norman Thomas (eds.), New Tactics in Social Conflict (New York: Vanguard Press, 1926) and J.M. Budish, People's Capitalism: Stock Ownership and Production (New York: International Publishers, 1958). Peter Drucker, The Unseen Revolution: How Pension Fund Socialism Came to America (New York: Harper and Row, 1976), despite its provocative title and the accompanying barrage of publicity, is nothing more than a sophisticated and updated variation of "people's capitalism". For a technical critique of Drucker note Richard Deaton and Robert Deaton, "An Honest Valuation of Drucker's Pension Fund 'Socialism'", Pensions & Investments, June 21, 1976, p. 15-16; also James Henry, "How Pension Fund Socialism Didn't Come to America", Working Papers for a New Society (Winter 1977), pp. 78-87.
53. Report of the Royal Commission on the Status of Pensions in Ontario, Vol. V, Ontario and the Canada Pension Plan, op. cit., p. 95.
54. Business Committee on Pension Policy, Capital Markets Study. Prepared for Business Committee on Pension Policy by Pension Finance Associates Ltd (Toronto: PFA Ltd, September 1983), p. 70.
55. On this subject note Stuart Holland (ed.), Beyond Capitalist Planning (Oxford: Basil Blackwell, 1978.)
56. Note for example Steve Hemmerick, "Funds Bail Out Corporate U.S.", Pensions & Investment Age, September 14, 1981, p. 25 and 29.
57. "Funding The Canada Pension Plan", Mercer Actuarial Bulletin, Vol. 28 (March 1978), p. 2.
58. Tristram S. Lett, "Savings or Consumption? The Role of the Public Pension Plan in the National Economy." Address to the Association of Canadian Pension Management, Toronto, 1977.

59. Canadian Council on Social Development, How Much Choice? Retirement Policies in Canada (Ottawa: CCSD, 1975), p. 102.
60. Robert Monks, "Funds Can't Hide Any Longer From Activist Shareholder Role", Pensions & Investments Age, May 28, 1984, p. 46.
61. Quoted in Bob Dumbleton and John Shutt, "Pensions: The Capitalist Trap", New Statesman, September 7, 1979, p. 335. Mr Hugh Jenkins, investment manager for the miners pension fund (NUM), was similarly quoted as stating that, "in 26 years of equal participation it had no marked effect at all" on investment practices.
62. Rifkin and Barber, op. cit., note 1, p. 254.
63. Laura Katz Olson, "Pension Power and the Public Sector", Crisis In The Public Sector. A Reader by the Economics Education Project of the Union for Radical Political Economics (New York: Monthly Review Press, 1981), p. 109.
64. ibid.
65. Economic Council of Canada, One In Three: Pensions for Canadians to 2030 (Hull: Canadian Government Publishing Centre, 1979), p. 52 and 62.
66. The impending pension crisis has been analyzed from a number of interdisciplinary and mainstream political perspectives. The general case is made by Paul Fischer, "The Social Security Crisis: An International Dilemma", International Social Security Review, XXXI, No. 4 (1978), pp. 383-396; Kingsley Davis and Pietronella van den Oever, "Age Relations and Public Policy in Advanced Industrial Societies", Population and Development Review, Vol. 7, No. 1 (1981), pp. 1-18 and Robert B. Hudson and Robert H. Binstock, "Political Systems and Aging", Handbook of Aging and the Social Sciences, eds. Robert H. Binstock and Ethel Shanas (New York: Van Nostrand Reinhold Company, 1976), pp. 369-400.
 The pension crisis in the U.S. has been investigated at length including James H. Schulz, "The Economic Impact of an Aging Population", Journal of Gerontology, Vol. 13 (Spring 1973), pp. 111-117; Carl V. Patton, "The Politics of Social Security", The Crisis in Social Security, ed. Michael J. Boskin (San Francisco: Institute for Contemporary Studies, 1977), pp. 147-172; Martha Derthick, Policy making for Social Security (Washington, D.C.: The Brookings Institution, 1979), Chapter 19; Bruno Stein, Social Security and Pensions in Transition: Understanding the American Retirement System (New York: The Free Press, 1980), Chapter 1. Popularized treatments are "The Crisis in Social Security", Newsweek, June 1, 1981, pp. 24-37 and "Social Security: What Can the Nations Afford?", Time, May 24, 1982, pp. 12-23. For Canada note Val Ross, "The Coming Old-Age Crisis", Maclean's, January 17, 1983, pp. 24-29.
67. Karl Marx, Capital, Volume I, op. cit., Chapter X.
68. Stearns, op. cit., p. 9.
69. Simone de Beauvoir, Old Age (Harmondsworth: Penguin Books, reprinted, 1978), p. 601.

70. Oskar Lange, On the Economic Theory of Socialism (New York: McGraw Hill Paperback, 3rd edition, 1966), p. 129. Emphasis in original.
71. Karl Marx and Frederick Engels, The Communist Manifesto (New York: Washington Square Press, 2nd printing, 1964), p. 83.
72. Karl Marx, Capital, Volume I (New York: The Modern Library, n.d., reprint of the 1906 Kerr & Company edition), p. 685.
73. *ibid.*, p. 689.
74. Karl Marx, Capital, Volume III (Moscow: Progress Publishers, reprinted, 1978), p. 441.
75. Ralph Miliband, Marxism and Politics (Oxford: Oxford University Press, 1977), p. 1.
76. *ibid.*, pp. 5-6.
77. Marx and Engels, *op. cit.*, p. 93. The issue of historical specificity was also dealt with by Frederick Engels, Anti-During (Moscow: Progress Publishers, 7th printing, 1977), Part III.
78. V.I. Lenin, "Our Programme", Selected Works (London: Lawrence and Wishart, 1968), p. 34. Emphasis in original. This was written in 1919, but was not published until 1925.
79. V.I. Lenin, "Five Years of the Russian Revolution and the Prospects of the World Revolution", Report Delivered at the Fourth Congress of the Communist International, November 13, 1922, Selected Works, Vol. 3 (Moscow: Foreign Languages Publishing House, 1961), pp. 779-780.
80. V.I. Lenin, "Third All-Russian Congress of Soviets of Workers', Soliders' and Peasant Deputies", Collected Works, Vol. 26 (Moscow: Progress Publishers, 1975), p. 472.
81. Stanley Moore, Three Tactics: The Background in Marx (New York: Monthly Review Press, 1963), p. 12.
82. Frederick Engels, 1895 Introduction to Karl Marx, The Class Struggles In France (Moscow: Progress Publishers, 1972), p. 22.
83. Miliband, *op. cit.*, p. 160.
84. Miliband, *op. cit.*, p. 40. The classic formulation regarding this issue is Rosa Luxemburg, "Social Reform or Revolution", Selected Political Writings of Rosa Luxemburg, ed. Dick Howard (New York and London: Monthly Review Press, 1971), pp. 52-134.
85. Note for example Hal Draper, "The Death of the State in Marx and Engels", The Socialist Register 1970, eds. Ralph Miliband and John Saville (London: The Merlin Press, 1970), pp. 281-307; Ralph Miliband, "Marx and the State", The Socialist Register 1965, eds. Ralph Miliband and John Saville (London: The Merlin Press, 1965), pp. 278-296 and Ralph Miliband, "Lenin's The State and Revolution", The Socialist Register 1970, eds. Ralph Miliband and John Saville (London: The Merlin Press, 1970), pp. 309-319.

86. Marx, Capital, Volume III, op. cit., p. 438.
87. Karl Marx, A Contribution to the Critique of Political Economy (Moscow: Progress Publishers, 1970), p. 21.
88. Marx, Capital, Volume III, loc. cit.
89. Moore, op. cit., p. 82. Emphasis added.
90. This is discussed by Richard Hyman, Marxism and the Sociology of Trade Unionism (London: Pluto Press, 1971), pp. 47-49.
91. Marx and Engels, op. cit., p. 93. Emphasis added.
92. Royden Harrison, "The British Labour Movement And The International in 1864", The Socialist Register 1964, eds. Ralph Miliband and John Saville (London: The Merlin Press, 1971), p. 305.
93. Quoted in Miliband, Marxism and Politics, op. cit., p. 79. The shift in emphasis became most apparent in Engels' 1895 Introduction to Karl Marx, The Class Struggles In France, op. cit., pp. 5-26. As Miliband has demonstrated, this was not a result of the editing undertaken by Kautsky, as some have argued, but was contained in the original text. Miliband has gone to some lengths to demonstrate that a defensive-offensive "reformist" strategy is viable, pp. 178-190.
94. Moore, op. cit., p. 66 and Miliband, Marxism and Politics, op. cit., pp. 94-96.
95. For example V.I. Lenin, "The Tasks of the Proletariat in Our Revolution", Collected Works, Vol. XIV (Moscow: Foreign Languages Publishing House, 1964) and Leon Trotsky, The History of the Russian Revolution (New York: Doubleday Anchor Books, 1959), Chapter XI.
96. Hyman, op. cit., p. 47. Emphasis in original.
97. Lenin, "The Tasks of the proletariat", op. cit. and Trotsky, op. cit.
98. Crane Briton, The Anatomy of Revolution (New York: Vintage Books, rev. ed., 1965), pp. 132-137 and 148-150.
99. Jean Jaurès, The Question of Method quoted in Moore, op. cit., p. 66. In the Althusserian schema, this "overlap" of the different levels of the global structure, including the mode of production, is referred to as "regions".
100. Briton, loc. cit.
101. Hyman, op. cit., p. 48.
102. The theoretical work of the Austro-Marxists has generally been ignored. Their rich intellectual tradition has, fortunately, recently been rediscovered. This has been remedied by Tom Bottomore and Patrick Goode (eds.), Austro-Marxism. Introduction by Tom Bottomore (Oxford: Oxford University Press, 1978). The Introduction by Bottomore, especially pp. 22-28, analyzes the economic theories of Hilferding, Renner and Bauer. This compendium contains translations of their key theoretical works. Note

for example Karl Renner, "Probleme des Marxismus" ("Problems of Marxism") (1916), pp. 91-101 and excerpts from Wandlungen Der Modernen Gesellschaft (New York: Arno Press, reprinted, 1975). (The Transformation of Modern Society). Significantly, no reference is made to Renner's Die Wirtschaft als Gesamtprozess und die Sozialisierung (Berlin: Dietz, 1924) (The National Economy as a Comprehensive Process and the Socialization). Also note Otto Bauer, Der Weg Zum Sozialismus (1919), pp. 146-151. The transition to socialism is also explored by Rudolf Hilferding, Finance Capital. Edited with an Introduction by Tom Bottomore (London: Routledge & Kegan Paul, reprinted, 1985), pp. 367-370 and the article "Die Problem der Zeit", Die Gesellschaft, Vol. I (1924). A recent psycho-history of the Austro-Marxist school is Mark E. Blum, The Austro-Marxists, 1890-1918 (Louisville: University of Kentucky Press, 1985). A critical assessment of the Austro-Marxists, and of Renner in particular, is contained in V. Afanasyev, Bourgeois Economic Thought 1930s-70s. Translated by James Riordan (Moscow: Progress Publishers, 1983), pp. 358-359.

103. Hilferding, Finance Capital, op. cit., p. 367.
104. The role of the modern capitalist state has been the subject of intense theoretical investigation and debate among Marxists in recent years. The literature is extensive. Excellent review articles include David A. Gold, Clarence Y.H. Lo, and Erik Olin Wright, "Recent Developments in Marxist Theories of The Capitalist State", Monthly Review, Vol. 27 (October 1975), pp. 29-43 and Part 2 in Monthly Review, Vol. 27 (November 1975), pp. 36-51; also Bob Jessop, "Recent theories of the capitalist state", Cambridge Journal of Economics, Vol. 1, No. 5 (1977), pp. 353-373.
105. Renner, "Problems of Marxism", op. cit., pp. 95-96.
106. Bottomore and Goode (eds.), op. cit., p. 26.
107. Renner, Wandlungen der Modernen Gesellschaft, op. cit.
108. Bauer, Der Weg Zum Sozialismus, op. cit.
109. The leading Swedish theoretician of "functional socialism" was Osten Unden, a professor of law. Note Gunnar Adler-Karlsson, Functional Socialism: A Swedish Theory for Democractic Socialization (Stockholm: Bokforlaget Prisma, 1967), reprinted as Reclaiming the Canadian Economy: A Swedish Approach Through Functional Socialism (Toronto: Anansi, 1970). Karl Renner's earlier The Institutions of Private Property. Translated by Agnes Schwarzschild (London and Boston: Routledge and Kegan Paul, reprinted, 1976), first published in 1904, may be viewed as the origin of this functionalist legal theory which differentiates between the rights and functions associated with ownership.
110. Note Afanasyev, op. cit., p. 359.
111. On this subject Michel Aglietta, A Theory of Capitalist Regulation: The U.S. Experience (London: New Left Books, 1979), Chapter 6.
112. It needs to be emphasized that the issue here is one of economic and political strategies, not which sector of the economy generates surplus value.

113. Shigeto Tsuru, "Has Capitalism Changed?", Has Capitalism Changed, ed. Shigeto Tsuru (Tokyo: Iwanami Shoten Publishers, 1961), pp. 64-65.
114. John Maynard Keynes, The General Theory of Employment Interest and Money (London: MacMillan, reprinted, 1967), p. 164 and 320. Emphasis added.
115. Frederick Engels, Socialism: Utopian and Scientific (New York: International Publishers, 1935), pp. 67-68 and note, p. 58.
116. Afanasyev, op. cit., p. 37. Emphasis added. Lenin also viewed the state-monopoly stage of development as "a complete material preparation for socialism." Note V.I. Lenin, Collected Works, Vol. 25 (Moscow: Progress Publishers, 1975), p. 359.
117. Eduard Bernstein, Evolutionary Socialism. Translated by Edith C. Harvey (New York: Schocken Books, 7th printing, 1975), p. xxviii.
118. Eric Shragge, Pensions Policy In Britain (London: Routledge & Kegan Paul, 1984), p. 161.
119. Miliband, Marxism and Politics, op. cit., p. 46.
120. V.I. Lenin quoted in Perry Anderson, "The Limits and Possibilities of Trade Union Action", The Incompatibles: Trade Union Militancy and The Consensus, ed. Robin Blackburn and Alexander Cockburn (Harmondsworth: Penguin Books Ltd, 1967), p. 271.
121. André Gorz, "Reforms and the Struggle for Socialism", The Capitalist System, eds. Richard C. Edwards, Michael Reich, and Thomas E. Weisskopf (Englewood Cliffs, N.J.: Prentice-Hall, 1978), pp. 529-530.
122. V.L. Allen, Militant Trade Unionism (London: The Merlin Press, 1966), Chapters 6 and 7.
123. Gorz, op. cit., pp. 529-530.
124. Burkitt, op. cit., pp. 180-181 and B. Burkitt, "Post-Keynesian Distribution Theory and Employee Investment Funds", Economics Studies Quarterly, Vol. XXXIV, No. 2 (1983), pp. 124-132.
125. Miliband, op. cit., p. 73.

APPENDIX A
COMPARATIVE CHRONOLOGY
OF
RETIREMENT INCOME ARRANGEMENTS AND REFORM INITIATIVES,
BRITAIN, CANADA, AND THE UNITED STATES

This chronology is intended to provide the reader with an overview of the historical development of retirement income legislation and programs. The chronology outlines a national and transnational framework to which major events and dates can be related.

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|--|--------|------------------------------------|
| 1601 | Poor Law Act Relief of destitution requiring parishes to provide from local taxation for the needy, homeless, and the sick. | | |
| 1699 | Newcastle Keelman First known union making provision for widows, children and the aged. | | |
| 1818 | | | War Veterans pensions established. |
| | | | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|--|---|---|
| 1829 | Metropolitan (London) Police First formal municipal pension scheme. | | |
| 1834 | Central government Superannuation Act. | Pre - 1900 Limited municipal social welfare programming. Responsibility limited to the poor and indigent, including the elderly, sick and young on a needs basis. | Pre - 1900 Limited municipal social services on a needs basis to indigent groups. |
| 1842 | Gas and Light Coke Co. First manufacturing pension scheme. | Amalgamated Society of Engineers, a British Union, provides retirement benefits. | |
| 1850 | | | New York City Police First municipal pension plan. |
| 1857 | | | |
| 1870 | | Government of Canada Federal Superannuation Act. | |
| 1874 | | Grand Trunk Railway First private sector pension plan. | |
| 1875 | | | American Express Company First employer - sponsored pension plan. |
| 1876 | | Province of Quebec Superannuation Aid Fund, first provincial pension plan for civil servants. | |
| | | | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|-------|--|--|--|
| 1880s | | City of Hamilton, Ontario First known municipality to pay pensions. | |
| 1900 | | International Typographical Union First union to pay retirement benefits on a continuous basis. | Patternmakers Union First union sponsored pension plan to make periodic payments. |
| 1901 | | | Carnegie Steel Company First manufacturing pension plan. |
| 1908 | Old Age Pensions Act Conditional, non-contributory old age pension of up to 5 shillings per week for those over 70. | Government Annuities Act Providing for the voluntary purchase of annuities by individuals from the federal government. International Harvester and N.S. Colliery first manufacturing pension plans. | |
| 1911 | | | State of Massachusetts First state-wide pension plan for employees. |
| 1918 | Income Tax Act Income tax deductibility status for employer contributions to occupational pension schemes. | | |
| | | | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|--|---|--|
| 1919 | | Income War Tax Act Income tax deductibility status for employer contributions to private pension plans. | |
| 1920 | | Returned Soldiers Insurance An act which provided for veterans to purchase private retirement annuities. | Federal Civil Service Retirement System established for employees. |
| 1925 | The Widows, Orphans' and Old Age Contributory Pensions Act 1925 The legislation was co-ordinated with the health insurance legislation to provide a comprehensive program of social security. The contributory, means-tested, flat-rate pension was payable at age 65 and survivor pensions for legal dependents. At age 70 these benefits were replaced by those under the 1908 Act. | | |
| 1926 | | | Revenue Act and Internal Revenue Code Income tax deductibility status for employer contributions to private pensions plans. |
| | | | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|---------|--|---------------|
| 1927 | | <p>Old Age Pension Act</p> <p>The first federal-provincial cost-shared program. A flat-rate pension paid to those over age 70 on the basis of a means-test.</p> <p>Soldiers Settlements Act</p> <p>Payments to veterans who by age or incapacity were unable to earn an income and had insufficient means.</p> <p>Income War Tax Act</p> <p>Income tax deductibility status for pension contributions by employees.</p> <p>War Veterans Allowances</p> <p>Similar to 1927 Soldiers Settlement Act.</p> | |
| 1930 | | | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|--|--------|--|
| 1935 | | | <p>Social Security Act (SSA) First national old age insurance (OAI) program providing for earnings-related pension benefits for retired workers 65 or over.</p> <p>Railroad Retirement Act Consolidation of bankrupt railroad pension plans.</p> |
| 1939 | | | <p>Amendments to SSA Benefits added for survivors and dependents (OASI).</p> |
| 1942 | <p>Beveridge Report on Social Insurance and the Allied Services. Comprehensive program for the creation of the welfare state. Recommended the development of social insurance services to include provision against want due to sickness, disability and old age. Based on the contributory principle and a minimum standard. Officially accepted as government policy after W.W.II.</p> | | <p>Internal Revenue Act Tax treatment for employer-sponsored pension plans clarified.</p> |
| | | | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|---|--|--|
| 1943 | | <p>The Marsh Report on Social Security for Canada, 1943 House of Commons Advisory Committee on Post-War Reconstruction. A comprehensive set of income security proposals to establish minimum standards. Never officially accepted as government policy.</p> | <p>The Burns Report on Security, Work and Relief Policies, emphasizing a full employment policy and long-range planning for public aid. Never accepted as government policy.</p> |
| 1946 | <p>The National Insurance Act 1946 Effective 1948, implementing the Beveridge Report recommendations. Enacted to "establish an extended system of national insurance providing pecuniary payments by way of unemployment benefits, sickness benefit, maternity benefit, retirement pension, widows' benefit, guardian's allowance and death grant...and to provide for the making of payments towards the cost of a national health service."</p> | <p>Income Tax Act Explicit recognition of tax deductibility status of both employer and employee contributions to occupational pension plans.</p> | |
| 1947 | | | <p>Taft-Hartley Act Section 302 requiring joint administration of union sponsored pension plans.</p> |
| | | | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|--|---|---|
| 1951 | | <p>Old Age Security Act Universal, flat-rate old age pension for those age 70 and over.</p> <p>Old Age Assistance Act Means-tested, flat-rate pension for those age 65-70, similar to the 1927 Act.</p> | |
| 1952 | Income Tax Act (Old Code) Income tax deductibility status for pension contributions by employees. | | |
| 1956 | | | <p>Amendments to SSA Coverage and benefits expanded; early retirement for women; disability benefits added (OASDI).</p> |
| 1957 | | <p>Registered Retirement Savings Plan (RRSP) Introduction of individual retirement saving vehicle with tax deductibility status.</p> | |
| 1958 | | | <p>Pension and Welfare Plans Disclosure Act Provisions of negotiated health and welfare programs to be made public.</p> |

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|--|--|---|
| 1959 | National Insurance Act 1959 (the Boyd-Carpenter Plan) Earnings-related graduated scheme to supplement the flat-rate pension. Effective April 1961; terminated April 1975. | | |
| 1965 | | Ontario Pension Benefits Act First legislation establishing uniform regulatory standards for vesting, funding, investment and disclosure for occupational pension plans. Eight other jurisdictions follow suit. | Older Americans Act Health Insurance for those 65 and over added to the social security program (OASDHI). Report of the President's Committee on Corporate Pension Funds and Other Private Retirement and Welfare Programs. |
| 1966 | | Canada/Quebec Pension Plan Acts (C/QPP) National earnings-related social insurance plan providing retirement, survivors and disability benefits. The QPP is a separate, but parallel, plan providing similar benefits. Canada Assistance Plan Provided for the consolidation of previous federal-provincial cost-shared programs, including old age assistance. | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|---|--|---------------|
| 1967 | | Guaranteed Income Supplement (GIS) Federally sponsored income-tested program to guarantee a minimum income to the elderly in conjunction with the Old Age Security pension. | |
| 1969 | National Superannuation and Social Insurance Bill, 1969 The Crossman Plan based on the Labour government's 1969 white paper, National Superannuation and Social Insurance: Proposals for Earnings-Related Social Security. An earnings-related pension merged with the flat-rate benefit. Progressive contribution structure and redistributive benefit structure. Provided for the "contracting-out" of private schemes from the state plan. Rejected by the Conservative Government in 1970. | | |
| | | | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|---|--------|---|
| 1973 | <p>Social Security Act 1973 (the Joseph Plan)</p> <p>Based on the Conservative Government's 1971 white paper, Strategy for Pensions: The Future Development of State and Occupational Provisions. Flat-rate scheme supplemented by "recognized" occupational pension schemes. In addition, a "money purchase" State Reserve scheme for those not in "recognized" schemes. Occupational Pensions Board created under the Act to monitor and regulate private schemes. Established the principle of a "partnership" between state and occupational pension plans. Most proposals abandoned by the Labour government in 1974.</p> | | |
| 1974 | | | <p>Employee Retirement Income Security Act 1974</p> <p>Introduces major reforms. First national uniform legislation for private sector pension plans establishing minimum standards for vesting, funding, investment and disclosure.</p> <p>Supplementary Security Income Act (SSI)</p> <p>Needs-tested program for the aged, disabled and blind. Consolidated previous Federal and state programs.</p> |

| DATE | BRITAIN | CANADA | UNITED STATES |
|----------------|--|---|---|
| 1974 (Cont) | | | Individual Retirement Account (IRA) Introduction of Individual retirement saving instrument with tax deductibility status. |
| 1975 | <p>Social Security Pensions Act 1975 (the Castle Plan) Based on the Labour government's 1974 white paper, Better Pensions Fully Protected Against Inflation: Proposals for a New Pension Scheme. A major consolidation Act. Introduces a two-tier retirement pension plan and specifies the terms on which an occupational pension scheme may "contract-out" from the state plan. The state plan consists of the basic flat-rate pension and an earnings-related component. The state reserve scheme under the Joseph Plan was rejected, while the Occupational Pensions Board was retained. Effective April, 1978.</p> <p>Report of the Occupational Pensions Board on Solvency, Disclosure and Member Participation.</p> | <p>Spousal Allowance Income-tested supplement to the spouse of an OAS recipient between ages 60 and 65.</p> | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|------|---|---|---|
| 1976 | Labour government's white paper on the Role of Members in the Running of Schemes. | | |
| 1977 | | Province of Quebec Coflrentes Report on Pension Reform | |
| 1979 | | Report of the Senate Committee on Retirement Age Policies Economic Council of Canada report, One in Three Report of the Federal Task Force on Retirement Income Policies Report of the Royal Commission on the Status of Pensions in Ontario | |
| 1980 | Social Security Act 1980 | | |
| 1981 | Report of the Occupational Pensions Board on Early Leavers and subsequent Fowler Inquiry by the Conservative government | Province of Saskatchewan Brief to the National Pensions Conference | Internal Revenue Act Income tax deductibility status for voluntary employee contributions to occupational pension plans. |

| DATE | BRITAIN | CANADA | UNITED STATES |
|----------------|---------|--|---|
| 1981 (Cont) | | | Report of the President's Commission on Pension Policy National Commission on Social Security Reform |
| 1982 | | <p>Final Report of the Ontario Select Committee on Pensions</p> <p>Canadian Association of Pension Supervisory Authorities Report on Pension Reform</p> <p>Province of British Columbia Discussion Paper on Pension Policy for the Future</p> <p>Federal Government's Green (Options) Paper on Better Pensions for Canadians</p> | |

| DATE | BRITAIN | CANADA | UNITED STATES |
|----------------|---|---|--|
| 1983 (Cont) | | <p>Report of the Parliamentary Task Force on Pension Reform</p> <p>Report of the Business Committee on Pension Policy</p> <p>Liberal Government Budget, including private pension reform proposals</p> <p>Ontario Proposals for Pension Reform</p> <p>Conservative government Throne Speech</p> | <p>Report of the National Commission on Social Security Reform</p> <p>Social security rescue amendments.</p> |
| 1984 | Health and Social Security Act 1984 | | |
| 1985 | <p>Conservative government's Green Paper (Fowler) on the Reform of Social Security, with recommendation to eliminate the state earnings-related pension system (SERPS).</p> | <p>Conservative government's Budget Speech, May 1985, including the recommendations for Improved Pensions for Canadians, based on individual retirement income vehicles (RRSPs) and no expansion of the public pension system.</p> | |

Sources:

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APPENDIX B
OVERVIEW OF STATE AND OCCUPATIONAL PENSION PLAN
PROGRAM FEATURES,
BRITAIN, CANADA, AND U.S.
STATE PENSION SYSTEMS

| PROGRAM FEATURE | BRITAIN ¹ | CANADA ² | UNITED STATES ³ |
|-------------------------|---|--|---|
| History and Legislation | Conditional, non-contributory pension introduced 1908. Subsequently the contributory, flat-rate 1925 Old-Age and Survivors' Pensions Act. The present system, introducing an earnings-related component, established under The Social Security Pensions Act 1975 became effective April 1978. | Means-tested old age assistance act passed in 1927. Universal, flat-rate Old Age Security (OAS) Act implemented in 1952. Contributory, earnings - related Canada Pension Plan (CPP), and a parallel Quebec Pension (QPP), introduced in 1966. In 1967, the Income-tested Guaranteed Income Supplement (GIS) was established. 1975 Income-tested spousal allowance added. | Social Security Act 1935 est. first national contributory, earnings - related pension plan (OAI). Survivors' and dependents added 1939 (OASI). 1956 disability added, as well as expanded coverage and benefits; early retirement for women (OASDI). Early retirement at 62 for men introduced in 1961. Health Insurance for the Aged added (OASDHI) in 1965. Needs-tested Supplementary Security Income Act (SSI) implemented 1974. Most recent amendments to SSA in 1983. |
| Administration | Department of Health and Social Security administers pensions through regional and local offices. Income-tested allowances are awarded | 1. OAS, CPP, and GIS are decentralized in administration through the National Department of Health and Welfare's district and local offices. | Department of Health and Human Services for general supervision. Social Security Administration, in Department, responsible for administration |

STATE PENSION SYSTEMS (Cont'd)

| PROGRAM FEATURE | BRITAIN ¹ | CANADA ² | UNITED STATES ³ |
|----------------------------|--|---|---|
| Administration (Cont'd) | by the Supplementary Benefits Commission in the Department. The Inland Revenue Department collects earnings-related contributions. | <p>2. CPP benefits paid by National Health and Welfare. Revenue Canada collects contributions for earnings-related CPP.</p> <p>3. The Province of Quebec administers its own earnings-related pension plan (QPP) through the Quebec Department of Revenue and the Quebec Pension Board.</p> | of program through regional centers, district and branch offices. Treasury Department, collection of contributions through the Internal Revenue Service, payment of benefits and management of funds. |
| Fund Size and Investment | Accumulated National Insurance Fund (all benefits) as of 1979/80 \$4.8 billion. Invested in British government securities. | Accumulated C/QPP funds at C\$29.9 billion (April 1981). Under the QPP, "excess funds" are made available to the provinces (excluding Quebec) based on a formula of the ratio of provincial to total contributions. The interest rate on CPP borrowings to the provinces is set equal to the 20 yr. rate on Gov't of Canada | Total assets of OASI Trust Fund at U.S. \$22.8 billion (1980). Invested in U.S. government securities. |

STATE PENSION SYSTEMS (Cont'd)

| PROGRAM FEATURE | BRITAIN ¹ | CANADA ² | UNITED STATES ³ |
|-----------------------------------|---|---|--|
| Fund Size and Investment (Cont'd) | | bonds. The QPP, however, is a separate actively managed fund with a diversified portfolio which can place up to 30% of assets in equities. | |
| Financing and Contributions | <ol style="list-style-type: none"> 1. Pay-as-you-go (PAYGO) financing with a reserve. 2. For occupational schemes that remain "contracted-in" to the earnings-related state plan total contributions of 17.95%: employee 7.75% of income between lower and upper earnings band and 10.2% of payroll by employer (April 1981). 3. For private schemes which "contract-out" from state plan contributions are the same for the basic component, but for earnings-related plan: employee 5.25% of income and 5.7% of payroll by employer. | <ol style="list-style-type: none"> 1. Universal, flat-rate QAS financed from general revenue. 2. C/QPP partially funded. 3. Total contributions of 3.6% of pensionable earnings between yearly basic exemption (YBE) and yearly maximum pensionable earnings (YMPE), shared 1.8%/1.8% between employee and employer. | <ol style="list-style-type: none"> 1. Social security retirement system financed on a pay-as-you-go (PAYGO) basis with a reserve. 2. Total contributions 13.3% (1981) of pensionable earnings between minimum primary insurance amount (PIA) and annual maximum taxable earnings (AMW): shared 6.65%/6.65% between employee and employer. 3. Supplementary Security Income (SSI) financed from general revenue. |

STATE PENSION SYSTEMS (Cont'd)

| PROGRAM FEATURE | BRITAIN ¹ | CANADA ² | UNITED STATES ³ |
|--------------------------------------|---|--|---|
| Financing and Contributions (Cont'd) | 4. General revenue covers 18% of cost; in addition, 3.5% payroll levy paid by employer for social security. | 4. Guaranteed Income Supplement (GIS) financed from general revenue. | |
| Tax Position | Contributions to National Insurance are not tax deductible. Pension income taxed as earned income at retirement. | Contributions to Canada/Quebec Pension Plans are tax deductible. Pension income at retirement in excess of \$1,000 is fully taxable. | Contributions to social security retirement system are tax deductible. Retirement benefits are non-taxable. |
| Tax (Revenue) Loss to Government | None | C \$540 million tax expenditure for C/QPP, plus an additional \$300 million in personal exemptions and deductions for elderly (1980). | U.S. \$10 billion tax expenditure for social security benefits, plus an additional \$3 billion in personal exemptions and tax credits for the elderly (1982). |
| Coverage | 1. Basic universal, flat-rate component covers all residents. 2. Earnings-related, contributory component is mandatory for all wage-earners. | 1. Universal, non-contributory flat-rate Old Age Security (OAS) pension covers all persons with minimum 10 yrs. residency. 2. Contributory, earnings-related Canada/Quebec Pension Plans (C/QPP) compulsory for all wage earners. Covers 94% of labour force. | 1. Earnings-related, contributory social security retirement system covers 90% of paid labour force. 2. Certain categories of public employees such as federal, state and municipal employees are permitted to "contract-out" from the social security retirement. |

STATE PENSION SYSTEMS (Cont'd)

| PROGRAM FEATURE | BRITAIN ¹ | CANADA ² | UNITED STATES ³ |
|--|---|--|--|
| Coverage (Cont'd) | <p>3. Approved occupational pension schemes may "contract-out" of the state earnings-related component. Over 87% of private scheme members have "contracted-out".</p> <p>4. Supplementary benefits for those below a minimum income standard.</p> | <p>3. No "contracting-out" from public pension system allowed.</p> <p>4. Guaranteed Income Supplement (GIS) payment for those below a minimum, basic income.</p> | <p>3. Supplementary Security Income (SSI) for those below minimum income threshold and previously covered by social security.</p> |
| Type of Benefits | <p>Retirement, survivors', disability, death, medical, sickness, maternity, unemployment and work injury benefits.</p> | <p>Retirement, survivors', disability and death benefits.</p> | <p>Old-age, survivors', disability, death, unemployment benefits, and hospital and supplementary medical insurance for those over age 65.</p> |
| Benefit Formulas and Income Replacement Rates | <p>1. Retirement</p> <p>Eff. 1986 - One earner couple at Average Nat'l Earnings (ANE) with 10 yrs. service</p> | <p>1. Retirement</p> <p>Eff. 1981 - One earner couple at Yearly Maximum Pensionable Earnings (YMPE) with 10 yrs service.</p> | <p>1. Retirement</p> <p>Eff. 1987 - One earner couple retiring in 1977 at Annual Maximum Taxable Earnings (AMW) with 40 quarters coverage.</p> |

STATE PENSION SYSTEMS (Cont'd)

| PROGRAM FEATURE | BRITAIN ¹ | CANADA ² | UNITED STATES ³ |
|--|---|--|--|
| Benefit Formulas and Income Replacement Rates (Con't) | Earnings-related component = 1 1/4 PAYE X 10 yrs = 12 1/2%. No phase-in to full benefit level. | Earnings-related plan: 25% of career average adjusted earnings over 47 yrs - 15% of low income years up to the YMPE. Ten yr. phase-in to maximum benefits. | Earnings-related benefit formula, excluding 5 lowest years earnings. Special minimum benefit for low- income earners with service in excess of 10 years. Dependent care drop-out provision. |
| | Replacement Rates Basic Component: 21.3% of ANE Earnings-related: 10.2% of ANE Total: 31.5% of ANE Eff. 1998 at Maturity Earnings-related component: 25% of career average adjusted earnings over highest 20 yrs. up to PAYE minus dependent care drop-out provision. Replacement Rates Basic component: 34.1% of ANE Earnings related: 20.4% of ANE Total: 54.5% of ANE | Replacement Rates OAS: 27.6% of AIW (2 @ 13.8%) C/QPP: 25.0% of AIW Total: 52.6% of AIW | Replacement Rates Primary Earner: 43% of AIW Dependents' Allowance: 21% of AIW (50% of primary earner) Total: 64% of AIW |

STATE PENSION SYSTEMS (Cont'd)

| PROGRAM FEATURE | BRITAIN ¹ | CANADA ² | UNITED STATES ³ |
|--|---|---|--|
| Benefit Formulas and Income Replacement Rates (Cont'd) | <p>2. Survivors' 100% of the accrued (pre-retirement) or paid retirement pension (post-retirement) + a flat-rate orphans benefit.</p> <p>3. Disability Flat-rate benefit according to age at incapacity. After April 1979 an earnings-related component. In addition, a non-contributory invalidity pension + dependents allowances.</p> <p>4. Death Lump sum benefit.</p> | <p>2. Survivors' 60% of deceased contributor's pension at age 65 (post-retirement); prior to age 65 flat-rate benefit + 37.5% of insured's pension (pre-retirement) + earnings-related orphan's benefit.</p> <p>3. Disability Flat-rate benefit + 75% of retirement pension + child supplement where applicable. For total and permanent disability.</p> <p>4. Death Lump sum benefit up to 10% of earnings ceiling.</p> | <p>2. Survivors' 100% of deceased insured worker's pension at age 65 (post-retirement); reduced pre-retirement benefit + orphan's benefit of 75% of deceased's pension/child. Special dependent pension.</p> <p>3. Disability Earnings-related pension + dependents' allowance of 50% of worker's pension (reduced below age 65) to spouse and each child. For incapacity for substantial gainful activity.</p> <p>4. Death Lump sum payment.</p> |

STATE PENSION SYSTEMS (Cont'd)

| PROGRAM FEATURE | BRITAIN ¹ | CANADA ² | UNITED STATES ³ |
|---|---|---|--|
| Retirement Age and Retirement/Earnings Test | Normal retirement is age 65 for men and 60 for women. Retirement test to age 70 for men and 65 for women. Pension reduced for earnings in excess of designated amount. No early retirement. | Normal retirement is age 65, benefits can be deferred until age 70. Retirement not necessary. Under the GIS benefits reduced \$1 for every \$2 of income from any source other than OAS. No early retirement. | Normal retirement age increased to 67 (1983), benefits can be deferred until Age 72. Between age 65 and 70 benefits reduced by \$1 for every \$2 earned above \$5,500 (1981). Provision for early retirement at age 62 with a reduced benefit. |
| Indexation | Pensions adjusted annually according to the Retail Price Index. | Adjusted to Consumer Price Index on an annual basis for the earnings - related pension (C/QPP) and quarterly for the universal pension (OAS). | Adjusted to Consumer Price Index. |
| Vesting (Preservation) | Immediate and full | Immediate and full | Immediate and full |
| Portability (Transferability) | Full national portability | Full national portability | Full national portability |

- Notes: 1. As per The Social Security Pensions Act 1975.
2. As of 1981.
3. Based on the 1981 amendments.

EMPLOYER - SPONSORED OCCUPATIONAL PENSION PLANS

| PROGRAM FEATURE | BRITAIN | CANADA | UNITED STATES |
|-------------------------|--|--|--|
| Legislation | The Social Security Pensions Act 1975 est. national regulatory framework and minimum standards for occupational pension schemes. Must be "recognized" by Inland Revenue Department for income tax exemption status. Occupational schemes may "contract-out" of State plan. | Ontario Pension Benefits Act 1965 est. regulatory framework and minimum standards for registered pension plans (RPPs) regarding vesting, funding, investment and disclosure. Eight other jurisdictions have similar legislation. Must be a provincially "registered" plan in order to qualify for federal Income Tax Act exemption status. | The Employee Retirement Income Security Act 1974 est. national regulatory framework and minimum standards for private sector plans regarding vesting, funding, investment and disclosure. No uniform public sector legislation. Must be a "qualified" plan for Internal Revenue Code tax exemption status. |
| Administration | Merchant banks or individual corporate trustees administer non-insured or self-invested plans; insurance companies administer insured plans of small companies. | Trust companies or individual corporate trustees administer trustee (non-insured) or self-invested plans; insurance companies administer the insured plans of small companies as well as non-insured segregated funds. | Bank trust departments or individual corporate trustees administer non-insured or self-invested plans; insurance companies administer the insured plans of small companies. |
| Fund Size and Asset Mix | C \$132 billion (£ 53 billion) market value for non-insured and insured pension fund assets (1979). A 48%/43% equity/debt asset mix ratio. | C \$54 billion market value for trustee (non-insured) pension fund assets (1980). A 28%/53% equity/debt asset mix ratio. | U.S. \$394 billion market value for non-insured funds (1981). A 61%/19% equity/debt asset mix ratio. |

EMPLOYER - SPONSORED OCCUPATIONAL PENSION PLANS (Cont'd)

| PROGRAM FEATURE | BRITAIN | CANADA | UNITED STATES |
|----------------------------------|--|--|---|
| Contributions and Funding | 77% of all plans are contributory with the employee paying contributions of 5% to 6% of salary and employer paying 75% of total cost. Plans which "contract-out" from the state scheme must be funded. | 75% of all plans are contributory with the employee paying contributions of 7% to 10% of salary and employer paying 66% of total cost, or 7% of payroll. Plans covered by pension legislation must be advanced funded; amortization of experience deficiencies and unfunded liabilities within 15 yrs. | 79% of all plans are non-contributory with the employer paying 72% of total cost, or 9% of total payroll. Legislation provides for three alternative advanced funding and amortization schedules. |
| Tax Position | Tax deductibility status for employer and employee contributions. Pension income taxed as earned income at retirement. | Tax deductibility status for employer and employee contributions. Pension income in excess of \$1,000 is taxed as earned income at retirement. | Tax deductibility status for employer and voluntary employee contributions. Pension income taxed as earned income at retirement. |
| Tax (Revenue) Loss to Government | Total revenue loss, including "contracting-out", est. at £ 1,200-2,900 million in 1983/84. | Total tax expenditure loss for regulated pension plans (RPP) and retirement savings plans (RRSP) est. at C\$6.1 billion in 1980. | Est. total tax expenditure for qualified pension plans and individual retirement accounts (IRA) U.S. \$28.4 billion in 1982. |

EMPLOYER - SPONSORED OCCUPATIONAL PENSION PLANS (Cont'd)

| PROGRAM FEATURE | BRITAIN | CANADA | UNITED STATES |
|---|--|---|---|
| Coverage | 45% of the total labour force covered by an approved occupational pension scheme. Voluntary pension scheme sponsorship. Nearly 90% of plan members are "contracted-out" from the State pension plan; 70% in public sector and 30% in private sector. | 40% of the total labour force covered by a registered pension plan. Voluntary pension plan sponsorship. No "contracting-out" from the public plan permitted. | 46% of the total labour force covered by a qualified pension plan. Voluntary pension plan sponsorship. No "contracting-out" from state social security retirement system permitted, with the exception of Federal, state and municipal employees. |
| Type of Benefits | <ol style="list-style-type: none"> 1. Retirement benefits 2. Death benefits (I) Pre-retirement (II) Post-retirement 3. Ill-health retirement | <ol style="list-style-type: none"> 1. Retirement benefits 2. Survivor benefits (I) Pre-retirement (II) Post-retirement 3. Disability pension | <ol style="list-style-type: none"> 1. Retirement benefits 2. Death benefits (I) Pre-retirement (II) Post-retirement 3. Disability pension |
| Benefit Formulas and Income Replacement Rates | 1. Retirement: Over 90% of scheme members covered by a defined benefit final average earnings plan calculated at 1.6%/yr of service x salary to a maximum of 66% of salary with 40 years service. | 1. Retirement: 72% of plan members covered by a defined (unit) benefit plan calculated at 2%/yr. of service x salary to a maximum of 70% of salary with 35 years service. | 1. Retirement: 70% of plan members covered by a defined benefit terminal earnings formula. |

EMPLOYER - SPONSORED OCCUPATIONAL PENSION PLANS (Cont'd)

| PROGRAM FEATURE | BRITAIN | CANADA | UNITED STATES |
|--|---|--|---|
| (Cont'd) Benefit Formulas and Income Replacement Rates | <p>2. Death benefit: 96% of scheme members covered by lump sum payment of 2-3 x salary on death before retirement; 87% of members have provision for a post-retirement widow's pension.</p> <p>3. Ill-health retirement: 46% of members covered by a provision which pays a benefit in excess of the accrued pension.</p> | <p>2. Survivor benefits: 45% of plan members covered by a survivor's benefit on death before retirement; 45% of members have no post-retirement survivor's benefit.</p> <p>3. Disability pension: 41% of plan members covered for a full accrued pension to date of disability without a reduction in benefit.</p> | <p>2. Survivor benefits: Joint and survivor's option must be offered, with some limitations, by plans registered under ERISA.</p> <p>3. Disability pension: 77% of plan members covered by some form of disability benefits.</p> |
| Retirement Age | Normal retirement age is 65 for males and 60 for females. | Normal retirement is age 65. | Normal retirement is age 65. |
| Indexation | 80% of scheme members in private sector have no provision for post-retirement benefit adjustment to offset inflation; public sector plans are nearly all inflation-proofed. Currently two-thirds of plan sponsors have periodic adjustments covering at least half the inflation rate. Deferred | 98% of plans have no formal indexation; 65% of members in public sector and 5% of members in private sector have escalation. In recent years half of all major plans have made periodic adjustments to offset a portion of the increase in the cost of living. No requirement to revalue deferred benefits. | 81% of major private sector plans have made periodic adjustments to offset inflation. Major public sector plans such as the Federal civil service and half of the state and local retirement systems have automatic escalation of retirement benefits. No requirement to revalue deferred benefits. |

EMPLOYER - SPONSORED OCCUPATIONAL PENSION PLANS (Cont'd)

| PROGRAM FEATURE | BRITAIN | CANADA | UNITED STATES |
|--|--|--|--|
| (Cont'd) Indexation | (preserved) benefits must be revalued for schemes which are "contracted-out". | | |
| Vesting (Preservation) | Legislative minimum standard is age 26 and 5 years service. Nearly 37% of scheme members covered by a preservation standard which exceeds the minimum. | Legislative minimum standard in most jurisdictions is age 45 and 10 years service; Manitoba 2 yrs. service, Saskatchewan rule of 45 (age + service). Majority of plans exceed minimum standard with a 10 year service requirement and no age requirement. | Legislation in private sector sets three alternative vesting requirements. Nearly 75% of private sector and 93% of public sector pension plans have a 10 year service requirement for vesting. |
| Portability (Transferability) | Less than 40% of all early leavers are eligible for a transfer payment. Transferability primarily found in public sector. | Portability fairly common among and between public sector plans. Limited portability between private sector plans with exception of multi-employer plans. | Central portability networks cover only 2% of all private pension plan members; 19% of participating employers and 8% of non-participating employers. |
| Other Retirement Income Savings Vehicles | <ul style="list-style-type: none"> - Deferred Profit-Sharing Pension Plans - Individual annuities and whole life insurance - Personal savings | <ul style="list-style-type: none"> - Individual Registered Retirement Savings Plan (RRSP) - Group RRSPs - Deferred Profit-Sharing Pension Plans (DPSP) - Individual annuities and whole life insurance - Personal savings | <ul style="list-style-type: none"> - Individual Retirement Account (IRA) - Group IRA - Deferred Profit-Sharing Pension Plans - Individual annuities and whole life insurance - Personal savings |

Sources:

William M. Mercer International, International Benefit Guidelines 1981 (New York: William M. Mercer, Inc., March 1981); International Benefits Information Service, Special Notes (Chicago: Charles D. Spencer & Associates, Inc., October 1981) U.S. Department of Health and Human Services, Social Security Administration, Social Security Programs Throughout The World 1981 (Washington, D.C.: GPO, July 1982); Barbara Boyle Torrey and Carole J. Thompson, An International Comparison of Pension Systems. A Working Paper prepared for the President's Commission on Pension Policy (Washington, D.C.: PCAPP, March 1980); Government Actuary, Occupational Pension Schemes, 1979 - Sixth Survey (London: HMSO, 1981); Labour Research Department; Guide to Company Pension Schemes and The Social Security Pensions Act 1975 (London: LRD, 1977); Hart D. Clark, "A Comparison of The Retirement Income Systems of Canada and Other Countries", The Retirement Income System in Canada: Problems and Alternative Policies for Reform, Vol. II - Appendices, Task Force on Retirement Income Policy (Ottawa: Canadian Government Publishing Centre, 1979); Statistics Canada, Pension Plans in Canada, 1980 (Ottawa: Minister of Supply and Services, 1982); Statistics Canada, Truited Pension Plans Financial Statistics (Ottawa: Minister of Supply and Services, 1982); CCH Canadian Limited, Your Canada Pension Plan, 1982 (Don Mills, Ont.: CCH Canadian Ltd., 1981); Greenwlich Research Associates, Large Corporate Pension Funds 1980 Report to Participants (Greenwich, Conn.: Greenwlich Research Associates, 1980); Daniel J. Beller, Preliminary Estimates of Participant and Financial Characteristics of Private Pension Plans, 1977. U.S. Department of Labor, Labor-Management Services Administration (Washington, D.C.: n.p., 1981); U.S. Department of Commerce, Statistical Abstract of the United States, 1981 (Washington, D.C.: GPO, 1982), Series 534, p. 328, and CCH Inc., 1983 Social Security Benefits Including Medicare, January 1, 1983 (Chicago: CCH Inc., 1982).

APPENDIX C

GLOSSARY OF PENSION PLAN TERMS

For the benefit of the reader unfamiliar with the technical terms used in this study the glossaries prepared by Statistics Canada, the U.K. Government Actuary and the U.S. National Commission on Social Security have been edited and reproduced.

CANADIAN PENSION TERMS

Definition of a Pension Plan

A pension plan is a formal arrangement entered into by an employer for providing retiring employees with a regular income for life in consideration of past services. The arrangement establishes a formula for determining pension benefits and the conditions an employee must meet to become entitled to such benefits.

Contributory Plan

Under a contributory plan the employees as well as the employer are required to make contributions.

Non-contributory Plan

Under a non-contributory plan the entire cost of pension benefits is borne by the employer and employees are not required to make contributions.

Funding Agency

A funding agency is an organization or a group of individuals that receives and accumulates pension plan contributions to be used for the payment of benefits under the plan.

Sources: Statistics Canada (74-401), Pension Plans in Canada, 1974 (Ottawa: Minister of Supply and Services, 1976), pp. 128-135; Government Actuary, Occupational Pension Schemes, 1975 - Fifth Survey (London: HMSO, 1978), pp. 104 - 108 and the U.S. National Commission on Social Security, Social Security in America's Future: Final Report of the National Commission on Social Security (Washington, D.C.: GPO, 1981), pp. 365 - 374.

Insured Plans

Insured plans may be underwritten by a variety of individual and group contracts with an insurance company or with the Government Annuities Branch. Contracts with an insurance company may range from the fully insured arrangement whereby the pension benefits are guaranteed by the insurer, to the deposit administration or segregated fund arrangements whereby the adequacy of the fund to meet the cost of the pension benefits is not guaranteed. All contracts with the Government Annuities Branch are the fully insured type.

Trusted Plans

Trusted plans are covered by agreements either with personal trustees or with trust companies. Under the trust approach there is no guarantee that the funds on hand will meet the cost of accrued pension benefits which is the basic difference between the fully insured and trusted approaches.

VESTING

Vesting on Termination of Employment

Vesting is the employee's right to all or part of the employer contributions paid on his behalf, on termination of employment before retirement, usually in the form of a deferred pension payable at normal retirement age. Vesting on termination of employment may be divided into three types, as follows:

- a) Immediate full - The employer contributions are fully and unconditionally vested in the employee when paid.
- b) Deferred full - The employer contributions are fully vested in the employee after he fulfills certain specified conditions such as age, service, participation or a combination of these.
- c) Deferred graduated - A proportion of employer contributions are vested in the employee after he has fulfilled specified minimum requirements with the proportion increasing as additional requirements are fulfilled until full (100%) vesting is reached.

Vesting Conditions

The conditions under which vested rights are granted to employees on termination of employment are specified in the plan. These conditions may be:

- (a) A minimum number of years of service with the employer.
- (b) A minimum number of years of participation in the plan.
- (c) Attainment of a certain age.
- (d) Some combination of the above conditions.

Plans Subject to Legislation

Some provinces have enacted legislation regulating the operation of private plans. The legislation requires plans to provide for the locked-in vesting of employer contributions paid in respect of service after the qualification date set out in the legislation where a member has completed at least 10 years of service (service or participation in the case of multi-employer plans) and has attained age 45, notwithstanding any other vesting conditions. In addition, similar federal legislation applies to pension plans covering employees employed in any work, business or undertaking that is within the legislative authority of the Parliament of Canada.

The qualification of the various acts are as follows:

| <u>Act</u> | <u>Qualification date</u> |
|--|---------------------------|
| Ontario - The Pension Benefits Act | January 1, 1965 |
| Quebec - The Supplemental Pension Plans Act | January 1, 1966 |
| Alberta - The Pension Benefits Act | January 1, 1967 |
| Saskatchewan - The Pension Benefits Act | January 1, 1969 |
| Federal - The Pension Benefits Standards Act | October 1, 1967 |

Locked-in Vesting

Employer contributions vested under the legislation described above cannot be forfeited or refunded in cash but must remain "locked-in" to provide a deferred pension.

Vesting on Death Before Retirement

Vesting on death before retirement is the right of the beneficiary or estate of the deceased member to all or part of the employer contributions paid on behalf of the member, generally in the form of a cash refund.

Disposition of Employee Contributions on Termination of Employment

Most contributory plans permit the employee to withdraw his contributions, with or without interest, in a single lump sum upon termination of employment before retirement, subject to the restrictions of any applicable pension legislation. Usually the employee's right to withdraw his contributions is conditional upon the forfeiture of any employer contributions that may be vested in him. Under plans which do not permit refunds, the employee contributions remain locked-in to provide a deferred pension commencing at normal retirement age.

Retirement Ages

Normal Retirement Age

Normal retirement age is the earliest age at which a member may retire as a right and receive immediately his full accrued pension without reduction, although it is not necessarily the age at which he leaves the service of the employer. Some plans provide a "floating normal retirement age" under which retirement may take place within a range of ages. For example, under the federal Superannuation Act retirement may take place between ages 60 and 65, at the employee's option, with no reduction in the accrued pension because of age. While federal public servants may retire at age 60, in actual practice most retire at later ages with the majority at age 65. For purposes of this report, the earliest age in the range of ages permissible under the "floating normal retirement" provision was taken to be the normal retirement age. Some plans provide for optional normal retirement ages based on some combination of age and minimum service requirements. For example a plan might provide for normal retirement at age 65 with the

option of retirement at age 60 with full accrued unreduced benefits on completion of 25 years of service.

Early Retirement Age

Early retirement age is an age before normal retirement at which retirement on a reduced pension is possible at the employee's option, at the employer's request or with mutual consent. Usually early retirement is subject to the attainment of a specific age and the completion of a minimum period of service.

Disability Retirement Age

Disability retirement age is the age at which an employee who becomes totally and permanently disabled, as defined by the plan, may retire before normal retirement age with an immediate pension benefit.

Post-retirement Adjustment

A post-retirement adjustment is the automatic increase in a retired employee's pension in accordance with a formula specified by the plan.

Death Benefit After Retirement

The benefits, if any, that are payable to the beneficiary of a retired employee who dies after becoming entitled to pension payments under the plan.

Widow's Pension

Widow's pension is a pension that is automatically payable, as a right under a plan, to the widow of a member who dies, and is in the form of life annuity.

Death Benefits Before Retirement

The benefits, if any, that are payable to the beneficiary of an employee who dies before he becomes entitled to a retirement pension under the plan.

Types of Plans

Pension plans may be divided into the following broad categories according to the formula for determining pension benefits:

Unit Benefit

Under the unit benefit formula the member earns a unit of pension equal to a percentage of his earnings for each year of participation in the plan. The percentage used varies from plan to plan with the most commonly used running from 1% to 2%. The various types of unit benefit plans are dependent upon the salary base specified in the formula and are as follows:

Final earnings - The unit of pension for each year of service is a fixed percentage of the employee's earnings at the time of retirement.

Final average earnings - The unit of pension for each year of service is a fixed percentage of the employee's average earnings during a specified period immediately preceding retirement. For example, the unit of pension might be 1% of his average earnings for the five years just before retirement.

Average best earnings - The unit of pension for each year of service is a fixed percentage of the employee's average earnings during a specified period of best earnings. For example, the unit of pension might be 1% of the average of his five highest years of earnings in the 10 year period just before retirement.

Career average earnings - Each year the employee earns a unit of pension equal to a percentage of his earnings in that year, e.g., a pension of 2% of earnings for each year of service. The benefit formula may be expressed as a fixed percentage of average earnings over the entire period of the member's participation in the plan, for each year of service, or expressed as a percentage of the employee's total contributions.

Level percentage of earnings - The pension benefit at retirement is equal to a specified percentage of the employee's earnings at date of entry into the plan. The pension benefit may also be expressed as a fixed dollar amount related to the employee's earnings at a specified time.

Money Purchase

A money purchase plan defines the contribution rates, generally expressed as a percentage of the employee's earnings, and the contributions together with interest are applied to provide whatever pension benefits can be purchased.

Profit Sharing

A profit sharing pension plan is essentially a money purchase plan except that employer contributions are related to profits. While the employer contributions are not fixed by formula, usually a minimum annual contribution, such as 1% of covered payroll, is required whether or not a profit was earned.

Flat Benefit

Under a flat benefit plan the pension benefit is usually expressed as a fixed dollar amount independent of earnings for each year of service. For example, the benefit might be \$6.00 per month for each year of service. In some plans the pension benefit is simply a fixed dollar amount independent of service and earnings, e.g., \$100.00 per month.

Composite

In a composite plan the pension benefit is based on some combination of the above categories. The most common is a combination of "money purchase" and "unit benefit".

Other

Includes plans which had different benefit formulae for different classes of employees or for males and females. Also included were plans which had a different benefit formula for the portion of earnings below and above a specified amount. Some plans provide more than one formula within the same broad category, e.g., career average and final earnings.

Integration

Integrated plans are defined as plans that provide either for a lower level of contributions and/or benefits on earnings up to the "Year's Maximum Pensionable Earnings" (YMPE) as defined in the C/QPP, or that provide for pensions to be offset by all or part of the C/QPP benefits.

Methods of Integration

Benefit step-rate - The benefit formula is reduced on earnings up to the YMPE with the full benefit formula applicable to earnings in excess of the YMPE.

Example:

Under a unit benefit plan with a 2% formula for each year of service the member's pension would be calculated on the full 2% basis with the resultant pension would be calculated on the full 2% basis with the resultant pension being reduced by the pension payable under the CPP or QPP at the time the member retires.

Ineligible earnings - The contribution and benefit formulae remain the same but the earnings base on which contribution and benefit rates are applied is reduced by all or part of the YMPE.

Example:

Under a money purchase plan requiring a contribution of 5% of the employee's earnings to be made by both the member and the employer, earnings might be defined as that part of the member's earnings that exceeds the YMPE. The same technique might be used for unit benefit plans or any other type of plan where contributions and/or benefits are related to earnings.

Contribution step rate - Employee and employer contributions are reduced by the exact or approximate amount of the contribution required to be paid to the CPP or QPP.

Example:

A money purchase plan requiring a contribution of 5% of the employee's earnings to be made by both the member and the employer might provide for a contribution of 3.2% on earnings up to the YMPE and 5% on excess earnings.

Other - Includes the following:

- (a) Plans which provide for integration in respect of employee contributions only.
- (b) Plans which provide different benefit rates for different classes of employees.
- (c) Plans which provide some combination of benefit formulae

U.K. PENSION TERMS

Accrued pension

The amount of the prospective pension of a member on his future retirement which can be regarded as provided in respect of his pensionable service to date, rather than by future service.

Allocation of pension

The giving up of part of a pension in return for a contingent pension to a widow or dependant of the pensioner.

Average-salary scheme

A scheme in which the pension depends on earnings in each year a member has been in the scheme.

Census of Employment

Annual count of the numbers of employees in the UK. See under 'Employee'.

Closed scheme

A scheme which is no longer open to new entrants but which still has employees contributing to it or pensions being paid from it. Sometimes arises when members do not wish to leave their present scheme in order to join a new scheme with different provisions.

Commutation of a pension

The giving up of at least part of a person's pension in return for an immediate lump sum.

Deferred pension

A pension the payment of which is deferred beyond the normal retirement age.

Deposit Administration scheme

A scheme somewhat similar to a Managed Fund Scheme but in which pensions are purchased from the insurance company out of the assets held for the scheme at the time of retirement of members.

Final average salary

The average earnings over a short period (often one to three years) up to or near the termination of membership.

Final-salary scheme

A scheme in which the pension depends on the length of pensionable service of the member and his final average salary.

Flat-rate scheme

A scheme in which the pension is a certain fixed amount - eg £ 5 a year - for each year's membership, irrespective of earnings.

Guaranteed pension

A pension which is guaranteed payable for a certain period even if the pensioner dies before the end of the period.

Insurance invested

Funds in respect of pension schemes that are invested by insurance companies.

Insurance scheme

A scheme in which all contributions are paid to an insurance company to invest. There are various forms of contract for this.

Insured scheme

A scheme under which the benefits promised in the rules in respect of the employee's service to date are secured for each member under a policy with an insurance company.

Integrated scheme

A scheme in which the benefits are specifically designed to take into account the national insurance benefits the members will receive.

Life Assurance scheme

A scheme only providing benefits on the death of members.

Life Office

An insurance company conducting life assurance business.

Managed Fund scheme

A scheme the resources of which have been handed over to an outside agency, such as an insurance company, for investment management.

Manual employees

Employees not in managerial, professional, administrative, selling or office employment.

Manual scheme

A pension scheme for manual employees only, or for some similar group such as employees who are paid weekly rather than monthly.

Members of a pension scheme

Often taken as 'active members', including only persons currently employed who are contributing or who will be entitled to benefits in respect of their current employment, but may include past employees who are or will be entitled to benefit.

Money Purchase scheme

A scheme in which the benefits payable to a member are directly related to the contributions paid by him and in respect of him but depend on the age at which they were paid.

Non-contributory scheme

A scheme in which no contributions are required from members, except possibly for some optional benefits. In this report the term also includes schemes in which the only contributions required are for widows' benefits.

Non-insurance scheme

A scheme in which no contributions are paid to an insurance company.

Notionally funded

The schemes for teachers, for the National Health Service and for the Atomic Energy Authority which have no actual investments but which for the purpose of assessing contribution rates are deemed to have purchased investments and to receive an income from them. Treated as unfunded for the purpose of this survey, as if income exactly balanced outgo.

Occupational pension scheme

A formal arrangement under which an employer contributes to or meets the cost of providing pensions to a group of his employees on their retirement on account of age. In this survey the term is extended to cover lump sum benefit schemes, i.e. those providing a lump sum on retirement which the employee is free to convert into a pension if he so desires.

Part-insurance scheme

A scheme in which some, but not all, of the contributions are paid to an insurance company which then provides part of the benefits under the scheme.

Preserved pension

A pension the right to which is preserved until retirement age is reached although the members has left the employment in respect of which the pension is payable.

Privately invested (or self invested)

Funds in respect of pension schemes which are invested other than through insurance companies.

Private Sector

Employment by firms or individuals whose operations are not subject to government control. Includes some largely independent non-profit making bodies such as universities.

Public Sector

Employment by the government or local government or public bodies subject to some ministerial control, although this control may not extend to pension arrangements.

Public Service schemes

The schemes for the main groups of public servants, such as Civil Servants, HM Forces, employees of the National Health Service, teacher, police and firemen and some others. A formal definition is given in the Social Security Pensions Act, 1975, Section 66.

Self-administered scheme

A scheme which is operated without recourse to an insurance company, except possibly for insurance of death benefits.

Top Hat scheme

A scheme which provides retirement benefits to directors and senior managers only.

Transfer payments

Payments made from one pension scheme to another whenever the pension rights of one or more members are transferred, usually on the employee changing his employment.

Trustees of a pension fund

Under most schemes in the private sector the body of persons whose responsibility it is to make fund investments and to ensure that the fund is fairly used for all persons entitled to benefit.

Unfunded, or pay-as-you-go, scheme

A scheme such as for most public service schemes in which no fund is built up to provide in advance for pensions (except possibly a 'notional fund' for the purpose of assessing contribution rates which is not represented by actual investments).

U.S. PENSION TERMS

Actuarial reduction

The reduction in a Social Security benefit when taken before age 65. The reduction is permanent and is designed to provide, on the average, the same value (taking into account interest) of total lifetime benefits as would have been payable if the benefits had started at age 65. At age 62, the benefit for a worker is reduced by 20 percent.

Aged beneficiary

A person getting benefits based on age (rather than based on, say, disability or on caring for a child beneficiary). In general, "aged" as used in this sense means age 62 or older in the case of a worker or spouse (or dependent parent) or age 60 or older in the case of a widow(er).

Allowance

The granting of an application for disability benefits.

Annual exempt amount

Amount of earnings a beneficiary can have in a year and still receive all of his or her benefits for that year. For beneficiaries under age 65, the amount is \$4,080 for 1981 and will be automatically adjusted, based on increases in general earnings levels in the future. For beneficiaries age 65 or older, the amount is \$5,500 in 1981 and \$6,000 in 1982, with automatic adjustments as wages rise thereafter (also see earnings test).

Assets test (Sometimes called means test)

A financial standard used to limit eligibility for certain government programs. In Supplemental Security Income, for example, eligibility is

limited to persons with \$1,500 or less in assets (\$2,250 for couples); some assets are not counted in making this determination, such as the value of a home.

Average Indexed Monthly Earnings (AIME)

The earnings used to determine the Primary Insurance Amount, on which benefits for a worker and family will be based. Earnings for each year after 1950 are updated (indexed) to the indexing year (the second year before the year the worker becomes 62 or, if earlier, becomes disabled or dies) to take account of the increase in average wages since the year they were earned. Earnings for the indexing year and subsequent years are used at their actual values. Then, the highest years of indexed earnings for a specified number of years are selected and averaged to yield the AIME.

Cash benefits

Benefits such as Social Security retirement benefits, survivor benefits, disability benefits, unemployment compensation, Supplemental Security Income, and Aid to Families with Dependent Children, aimed at replacing prior income or earning power and, paid directly to the beneficiary (instead of to those rendering services to the beneficiary).

Child-care year

A year of low earnings due to the responsibility of caring for a child under a certain age.

Cohort

A group of persons which shares a common characteristic, such as persons who reach 62 in a certain calendar year or persons who become disabled in a certain calendar year.

Consumer Price Index (CPI)

An index published by the Bureau of Labor Statistics, Department of Labor, which measures average changes in prices of goods and services. Two CPI's are published--a CPI for All Urban Consumers and a revised CPI for Urban

Wage Earners and Clerical Workers. The Social Security Act provides for automatic increases in benefits based on increases in the latter CPI.

Coordinated plan

A pension plan that is combined with Social Security in order to give the beneficiaries an agreed-upon level and/or type of benefits. Many State and local government pension plans are coordinated with Social Security.

Coverage

The inclusion of workers under a social insurance system, such as Social Security, for the purposes of benefits and taxes.

Coverage agreement

Voluntary arrangements between the Federal government and State and local governments, nonprofit organizations or American companies whose foreign subsidiaries employ U.S. citizens, with regard to the coverage of their employees under Social Security and Medicare Hospital Insurance.

Covered employment

All work covered by law under Social Security and Medicare Hospital Insurance (see noncovered employment).

Covered earnings

Earnings that are subject to the payroll tax and are credited for benefit purposes.

Delayed-retirement credit

An increase in benefits for a worker who delays retirement beyond age 65. The credit is measured in terms of the number of months after age 65 and up to age 72 for which the worker was eligible for, but did not receive, retirement benefits. The credit is 1/4 of 1 percent per month of the worker's Primary Insurance Amount for workers reaching age 62 after 1978.

Dropout year

A year of low earnings which can be disregarded in computing a beneficiary's average earnings for Social Security purposes.

Dual entitlement

Entitlement to a benefit as a spouse or survivor, as well as to a benefit based on one's own earnings. In such cases, the spouse or survivor benefit is payable only to the extent that it exceeds the person's benefit as a worker.

Earned income disregard

An amount of wage or salary income that does not count in determining eligibility for benefits under the Supplemental Security Income program's income test. The current figure is \$65 per month, plus one-half of all other earnings (see also general income disregard).

Earnings base

The maximum amount of annual covered earnings on which employees, employers, and self-employed people pay Social Security and Hospital Insurance taxes and which can be counted in figuring Social Security benefit amounts. The base is \$29,700 for 1981.

Earnings credits

Amounts of covered earnings from work appearing on the Social Security Administration's records that are used to determine an individual's entitlement to Social Security and Medicare Hospital Insurance benefits and to compute the amount of the OASDI benefit.

Earnings record

A record kept by the Social Security Administration of each worker's covered wages and self-employment income, by year, which is used as the basis for computing Social Security eligibility and benefits.

Earnings test

The provision that requires a person's Social Security benefits to be reduced by \$1 for each \$2 of earnings over the annual exempt amount (see annual exempt amount). The test is not applied once a beneficiary reaches 72 (70 beginning in 1982).

Eligibility

The state of meeting all of the requirements for a particular Social Security benefit except filing and approval of an application.

Entitlement

The state of meeting all of the requirements for a particular Social Security benefit, including the filing and approval of an application.

General income disregard

An amount of income accruing to the beneficiary from any source that is not counted in computing the monthly payment under the Supplemental Security Income program.

Income test (sometimes called means test)

The requirement in public assistance programs that makes people eligible for payments or medical-care expense reimbursement only if their incomes (and, sometimes, assets) are less than a specified amount.

Indexing

Updating data for past periods to some recent date by the application of a formula. In Social Security, a number of components are updated by indexing, including earnings used in the benefit computation, benefits paid to persons on the roll, the base to which the payroll tax is applicable, and the exempt amount under the earnings test (see Average Indexed Monthly Earnings).

Individual Retirement Account

A plan providing retirement benefits for employees who do not have an employer-sponsored pension plan.

Insured status

A requirement for entitlement to Social Security retirement, disability, and survivor benefits. A person is insured if he or she has the required number of quarters of coverage, based on his or her earnings credits (see earnings credits and quarters of coverage).

Currently insured: Six quarters of coverage during the 13-quarter period ending with the quarter of the worker's death or, if earlier, the quarter in which the worker became entitled to a disabled worker's benefit.

Fully insured: One quarter of coverage for each calendar year elapsing after 1950 (or, if later, after the year a worker reaches 21) and up to the year the worker reaches 62, or dies, or is disabled, whichever occurs earlier. The minimum requirement is 6 quarters of coverage; the maximum requirement is 40 quarters of coverage.

Insured in event of disability: A worker is insured in event of disability if he or she is fully insured and has at least 20 quarters of coverage during the 40-quarter period ending with the quarter of disablement. (A person disabled because of blindness needs only fully insured status). Workers disabled before age 31 have an alternative requirement which is less stringent.

In order to establish eligibility for retirement and survivor benefits, a worker only needs to be fully insured. However, lump-sum death benefits and survivor benefits to children and widows or widowers with young children in their care may be paid even if the worker is only currently insured.

Integration

As used in connection with private pension plans, the development of the provisions of the plan so that, in combination with Social Security, the combined benefit will constitute approximately the same percentage of salary for persons with the same length of service, regardless of salary level.

Maintenance of effort

A requirement in connection with public assistance programs that, after a Federal program is introduced or is liberalized, the state must continue to

expend funds or to provide services at the same level (or higher) as it had done previously.

Maturity

The time when young workers who entered the system when the Social Security program first covered most of the population (the early 1950's) will have been receiving benefits for many years, thus making the full cost of Social Security apparent.

Maximum family benefit

The maximum monthly amount that can be paid on a worker's earnings record. Whenever the amount of benefits payable on an earnings record exceeds the maximum, each family or survivor benefit is proportionately reduced to bring the total within the maximum. (Benefits for divorced spouses and surviving divorced spouses are excluded from this limit).

Medical standards for disability

Physical condition and medical history standards used in determining whether an applicant is disabled, for purposes of establishing a "period of disability." A medical impairment is one that results from anatomical, physiological, or psychological abnormalities which are demonstrable by medically acceptable clinical and laboratory diagnostic techniques.

Medically needy

Persons whose assets or income are too high to qualify for Supplemental Security Income or Aid to Families with Dependent Children but who would qualify for it if permitted to spend-down to Medicaid eligibility levels by documenting incurred medical expenses (see spend-down provision). Some States include such persons in their Medicaid programs.

Medicare

The health insurance portion of the Social Security Act (Title XVIII), which provides Hospital Insurance in its Part A and Supplementary Medical Insurance in its Part B.

Minimum benefit, regular

The lowest benefit payable (before any reductions or deductions) to a retired or a disabled worker, or to the sole survivor of a worker. The minimum benefit is frozen at \$122 for new beneficiaries. However, after a person begins to get benefits based on the minimum (or reaches age 65, if earlier), his or her benefit will be increased for cost-of-living increases.

Noncoordinated government pension plan

A Federal, State, or local government retirement program not integrated with Social Security--i.e., without an offset or reduction for the receipt of Social Security benefits.

Noncovered employment

All paid work not covered by law under Social Security or Medicare Hospital Insurance (primarily most Federal civilian employment, some State and local government employment, and some employment for nonprofit organizations).

Normal retirement age

The age at which, when the retirement benefit is initially claimed, it is not subject to an actuarial reduction or increase (under present law, age 65). (See actuarial reduction)

Old-Age, Survivors, and Disability Insurance (OASDI)

Title II of the Social Security Act, the cash benefits portion of the program.

Past-service credits

As used in connection with private pension plans, the counting of service rendered to the employer before the plan became effective in the determination of benefit eligibility and amounts.

Portability

A worker's ability to take pension credits earned on one job to another job in a different company, industry, or area of the country.

Primary Insurance Amount (PIA)

The amount on which all monthly OASDI benefits are based. A worker's PIA is derived from Average Indexed Monthly Earnings by applying it in a

weighted benefit formula. Such formula for persons reaching age 62 in 1981 (or dying or becoming disabled before age 62 in 1981) is 90 percent of the first \$211 of AIME, plus 32 percent of the next \$1,063 of AIME, plus 15 percent of AIME in excess of \$1,274. For subsequent years' cohorts, the dollar figures are changed to reflect the relative changes in nationwide average wages. A worker's disability benefit or old-age benefit at age 65 is equal to 100 percent of PIA. Other benefits are various percentages of the worker's PIA. (See weighted benefit and cohort)

Quarters of coverage

The measure used to determine if a person has enough earnings credits to be insured for Social Security benefits (see earnings credits and insured status). In general, for years before 1978, a wage earner acquired one quarter of coverage for each calendar quarter in which he or she was paid \$50 or more in covered wages. A self-employed person acquired 4 quarters of coverage for each year in which net income from self-employment was \$400 or more. Beginning in 1978, a worker acquires 1 quarter of coverage (up to a maximum of 4) for each \$250 of earnings paid in a year; the dollar measure is automatically increased each year to take account of increases in average wages (in 1979, \$260; in 1980, \$290; and in 1981, \$310).

Replacement rate

The worker's benefit (or the family benefit) as a percentage of prior earnings. If a worker earned \$500 a month before retirement and receives a benefit of \$350, his or her replacement rate is 70 percent. Generally, it is the relationship between the benefit payable for the first month of entitlement and gross taxable earnings for the year before entitlement. However, in some contexts, it may be the relationship between the benefit and (1) net earnings from the prior year or (2) average indexed earnings.

Special minimum benefit

A benefit based on the number of years a person has worked under Social Security rather than on his or her average earnings. This benefit is designed

to help those who have worked for long periods at low wages and is paid only if it is higher than the worker's benefit based on the regular benefit formula. It is based on a flat amount (currently, \$14.50) per "year of coverage" in excess of 10 years, but not over 30 years. A "year of coverage" is one with earnings of at least 25 percent of the earnings base for the year (but, for 1979 and after, the earnings base which would have resulted if the 1978 base had been automatically adjusted, and not subjected to ad hoc increases in 1979-81; such hypothetical base for 1981 is \$22,200).

State supplementation

The payments to SSI recipients by States in addition to the Federal payments (done either on a voluntary basis or, as for some recipients, mandatorily).

Substantial gainful activity (SGA)

Remunerative work that is substantial, as determined by the amount of money earned. If a disabled person engages in SGA, his or her benefits are denied or terminated. SGA involves the performance of significant physical or mental duties, or both, which are productive in nature and may entail either full-time or part-time work.

Survivor

An immediate relative of an insured worker (a wife, child, or parent) who lives longer than the worker and thus receives a portion of the benefits, either immediately or upon reaching a prescribed age, that would have been paid the worker if he or she were retired or disabled.

Taxable payroll

Total earnings that are subject to OASDI and HI taxes, adjusted to reflect the lower tax rates on self-employment, tips, and multiple-employer excess wages. The long-range cost of the program or of changes therein is usually expressed as a percentage of average taxable payroll and is comparable to the combined employer/employee tax rate scheduled in the law. Taxable

payroll is estimated at \$1.13 trillion for 1980 and \$1.26 trillion for 1981. One percent of taxable payroll in 1980 was \$11.3 billion.

Trial work period

A period of time during which a disability beneficiary continues to receive full benefits even though working. This is done to permit beneficiaries to work long enough to test their ability to work without losing benefits.

Vesting

The establishment of eligibility for, or the right to the eventual receipt of, benefits under a pension plan.

Wage indexing

See Average Indexed Monthly Earnings.

Weighted benefit

One which replaces a larger percentage of preretirement earnings for people with lower earnings than it does for people with higher earnings. This is done in the Social Security program.

APPENDIX D-1

EMPLOYEES COVERED BY PRIVATE PENSION PLANS IN RELATION TO THE TOTAL AND NON-AGRICULTURAL LABOUR FORCE, CANADA, 1938 - 1980

| Year | Private Pension Plan Coverage (million) | | Labour Force (million) | | Employees Covered by Private Pension Plans as a % of | |
|------|---|--------------------|------------------------|--------|--|---------------------|
| | Private Sector | Public Sector | Total | Non-Ag | Total Labour Force | Non-Ag Labour Force |
| | | | | | | |
| 1938 | 0.265 ¹ | 0.078 ² | 0.343 | 2.1 | 7.6% | 16.3% |
| 1947 | 0.652 ³ | 0.170 ⁴ | 0.823 | 3.8 | 16.8 | 21.7 |
| 1960 | 0.998 ⁵ | 0.816 ⁵ | 1.8 | 5.7 | 28.1 | 31.6 |
| 1965 | 1.3 ⁵ | 1.1 ⁵ | 2.4 | 6.5 | 33.8 | 35.9 |
| 1970 | 1.5 | 1.3 | 2.8 | 7.9 | 33.3 | 35.4 |
| 1976 | 2.2 | 1.8 | 3.9 | 9.3 | 36.8 | 41.9 |
| 1980 | 2.5 | 1.9 | 4.5 | 10.1 | 39.8 | 44.6 |

Notes: 1. Industrial Relations Section, Queen's University.

2. Total public sector employment was 126,470 derived from aggregating the three levels of government, teachers and the armed forces, excluding the para-public sector, and assuming a level of pension plan coverage of 66 per cent applied as a weighted average.

3. Dominion Bureau of Statistics, Survey of Pension and Welfare Plans, 1947 and includes the 180,794 railway employees excluded from the D.B.S. survey.

4. Total public sector employment was 394,497 derived from aggregating the three levels of government, teachers and the armed forces but excluding the para-public sector. 1946 data was used for provincial and municipal employment as cited by the Department of National Revenue. Pension plan coverage was assumed to be 75 percent applied as a weighted average. For 1947, Health and Welfare cites public sector pension coverage as 200,000 to 250,000 including 100,000 for the armed forces. This figure is clearly wrong when cross-referenced with the Canada Year Book for 1947 which cites the armed forces at 37,000. The figure of 100,000 more nearly corresponds to the 1942 figure of 107,000 for the armed forces.

5. Public sector pension coverage was extrapolated at 45 percent of total coverage based on the estimates in Statistics Canada, Pension Plans in Canada, 1970. Private sector coverage was calculated as a residual.

Sources: Constructed from M.C. Urquhart (ed.), Historical Statistics of Canada (Toronto: MacMillan Company of Canada Ltd., 1965), various series. Dominion Bureau of Statistics and Statistics Canada, Canadian Statistical Review (Ottawa: Queen's Printer, various years); Bank of Canada, Bank of Canada Review (Ottawa, May 1978), p.55; Department of National Revenue, Taxation Statistics 1946, (Ottawa: Queen's Printer, 1946); Dominion Bureau of Statistics and Statistics Canada, Canada Year Book (Ottawa: King's and Queen's Printer, various years); Industrial Relations Section, Queen's University, "Industrial Retirement Plans in Canada," Bulletin No. 1, 1938 in Leonard Marsh, Report on Social Security for Canada 1943 (Toronto: University of Toronto Press, reprinted, 1975), Appendix V, pp.302-303; Dominion Bureau of Statistics, Survey of Pension and Welfare Plans, 1947 (74-502A) (Ottawa, May 1950), Table 1, p.24; Statistics Canada (84-401), Pension Plans in Canada (Ottawa: 1970, 1974, 1976 and 1980); Health and Welfare Canada, Retirement Age (Ottawa: Minister of National Health and Welfare, December 14, 1978), Table V.A.6, P.114.

APPENDIX D-2

EMPLOYEES COVERED BY PRIVATE PENSION PLANS IN RELATION TO THE TOTAL AND NON-AGRICULTURAL LABOUR FORCE, UNITED STATES, 1929 ± 1979

| Year | Private Pension Plan Coverage (million) | | Labour Force (million) | | Employees Covered by Private Pension Plans as a % of | |
|------|---|----------------------------|------------------------|--------|--|---------------------|
| | Private Sector | Public Sector ¹ | Total | Non-Ag | Total Labour Force | Non-Ag Labour Force |
| | | | | | | |
| 1929 | 3.8 ² | 1.0 ³ | 4.8 | 37.1 | 9.7% | 12.9% |
| 1938 | 3.8 ⁴ | 2.4 ⁵ | 6.2 | 34.5 | 11.3 | 17.9 |
| 1947 | 8.0 | 3.8 ⁵ | 11.8 | 49.5 | 19.4 | 23.8 |
| 1950 | 9.8 | 4.0 ⁵ | 13.8 | 52.5 | 21.6 | 26.3 |
| 1955 | 14.2 | 6.4 | 20.6 | 56.2 | 30.3 | 36.7 |
| 1960 | 18.7 | 7.6 | 26.3 | 60.3 | 36.5 | 43.6 |
| 1965 | 21.8 | 9.5 | 31.3 | 66.7 | 40.5 | 46.9 |
| 1970 | 26.3 | 9.7 | 36.0 | 74.8 | 41.9 | 48.1 |
| 1975 | 30.3 | 12.7 | 43.0 | 80.3 | 45.4 | 53.6 |
| 1979 | NA | NA | 47.9 | 93.9 | 45.7 | 51.0 |

- Notes: 1. The public sector was derived by aggregating Federal, state and local retirement system coverage, excluding teachers and the para-public sector from the U.S. Department of Commerce, Statistical Abstract of the United States. This would result in underestimating total coverage in relation to the total labour force.
2. Estimated by M.W. Latimer and cited in William C. Greenough and Francis P. King, Pension Plans and Public Policy (New York: Columbia University Press, 1976), p.31.
3. Includes Federal government employees covered by a pension, but excludes state and local government pension coverage for which data was unavailable. Therefore underestimated.
4. 1940.
5. Includes Federal government employee pension plan coverage plus 46 per cent of total state and local government employees in the respective year which represents the 1942 ratio of state and local government pension coverage to total state and local government employment.

Sources: Constructed from U.S. Department of Commerce, Bureau of Census, Historical Statistics of the United States: Colonial Times to 1957 (Washington, D.C.: GPO, 1961), various series; U.S. Department of Commerce, Bureau of Census, Statistical Abstract of the United States (Washington, D.C.: GPO, various editions); President's Commission on Pension Policy, Coming of Age: Toward a National Retirement Income Policy (Washington, D.C.: PCPP, February 1981), Table 2, p.13; International Labour Organization, Year Book of Labour Statistics 1981 (Geneva: ILO, 1981) and information supplied to the author by the U.S. National Social Security Reform Commission, May 17, 1982.

APPENDIX D-3

EMPLOYEES COVERED BY OCCUPATIONAL PENSION SCHEMES IN RELATION TO THE TOTAL AND NON-AGRICULTURAL LABOUR FORCE, UNITED KINGDOM, 1936 - 1979

| Year | Occupational Pension Scheme Coverage (million) | | Labour Force (million) | | Employees Covered by Occupational Pension Schemes as a % of | |
|------|--|----------------------------|------------------------|-------------------|---|---------------------|
| | Private Sector | Public Sector ¹ | Total | Non-Ag | Total Labour Force | Non-Ag Labour Force |
| | | | | | | |
| 1936 | 1.6 | 1.0 | 2.6 | 20.1 ² | 18.5 | 12.9% |
| 1953 | 3.1 | 3.1 | 6.2 | 21.4 | 20.6 | 30.1 |
| 1956 | 4.3 | 3.7 | 8.0 | 22.2 | 21.5 | 37.2 |
| 1963 | 7.2 | 3.9 | 11.1 | 23.6 | 22.9 | 48.5 |
| 1967 | 8.1 | 4.1 | 12.2 | 23.8 | 23.3 | 52.6 |
| 1971 | 6.8 | 4.3 | 11.1 | 23.2 | 22.8 | 48.7 |
| 1975 | 6.1 | 5.4 | 11.4 | 25.9 | 23.9 | 47.7 |
| 1979 | 6.2 | 5.6 | 11.8 | 26.4 | 23.8 | 49.6 |

Notes: 1. The non-agricultural labour force is defined as the total work force minus those employed in agriculture, hunting and fishing.
2. Interpolated from 1933 and 1938 labour force data.

Sources: Constructed from the Government Actuary, Occupational Pension Schemes, 1975 - Fifth Survey (London: HMSO, 1978), Table 3.2, p.9 and the Government Actuary, Occupational Pension Schemes, 1979 - Sixth Survey (London: HMSO, 1981), Table 2.1, p.5. Robert Price and George Sayers Bain, "Union Growth Revisited: 1948 - 1974 in Perspective", British Journal of Industrial Relations, Vol. XIV (November 1976), Table 1, p.340; Department of Employment Productivity, British Labour Statistics Historical Abstract, 1886-1968 (London: HMSO, 1971), Table 118, p.210, Table 125, pp.228-229, Table 128, p.234; Central Statistics Office, Annual Abstract of Statistics 1976 (London: HMSO, 1976), Table 117, p.219 and Table 149, and the International Labour Organization, Year Book of Labour Statistics 1981 (Geneva: ILO, 1981).

APPENDIX E

NET PRIVATE, PUBLIC, AND TOTAL PENSION FUND SAVING
IN RELATION TO
PERSONAL AND GROSS SAVING, BILLION NATIONAL CURRENCY UNITS,
U.K., CANADA, AND U.S., 1960-1980

| Year | Net Private Pension Saving | | | Net Public Pension Saving | | | Total Net Pension Saving | | | Total Personal Saving | | | Gross Saving | | |
|------|----------------------------|----------|--------|---------------------------|----------|--------|--------------------------|----------|--------|-----------------------|----------|--------|--------------|----------|--------|
| | (U.K.) | (Canada) | (U.S.) | (U.K.) | (Canada) | (U.S.) | (U.K.) | (Canada) | (U.S.) | (U.K.) | (Canada) | (U.S.) | (U.K.) | (Canada) | (U.S.) |
| 1960 | .50 | .4 | 6.0 | .07 | - | +0.7 | .57 | .4 | 6.7 | 1.2 | 1.5 | 19.7 | 4.9 | 54.(E) | 81.1 |
| 1965 | .70 | n.a. | 9.4 | .19 | - | -0.1 | .89 | n.a. | 9.3 | 1.9 | 2.9 | 33.7 | 6.7 | 10.4 | 120.2 |
| 1970 | 1.06 | 1.3 | 11.8 | .35 | 1.3 | 2.9 | 1.41 | 2.6 | 14.7 | 3.3 | 3.9 | 55.8 | 12.3 | 18.5 | 148.9 |
| 1971 | 1.26 | n.a. | 16.3 | .49 | 1.3 | 1.9 | 1.75 | n.a. | 18.2 | 2.9 | 4.5 | 57.3 | 12.4 | 20.8 | 171.9 |
| 1972 | 1.56 | n.a. | 18.4 | .52 | 1.4 | 2.5 | 1.08 | n.a. | 20.9 | 4.5 | 5.1 | 49.4 | 13.9 | 23.4 | 174.2 |
| 1973 | 1.95 | 2.1 | 17.4 | .68 | 1.6 | 2.2 | 2.63 | 3.7 | 19.6 | 6.2 | 6.7 | 79.0 | 18.6 | 28.7 | 235.5 |
| 1974 | 2.58 | 2.6 | 13.7 | .91 | 1.7 | 2.6 | 3.49 | 4.3 | 16.3 | 7.4 | 7.7 | 85.1 | 20.4 | 35.8 | 227.8 |
| 1975 | 3.56 | 3.2 | 15.8 | 1.38 | 1.7 | 0.7 | 4.94 | 4.9 | 16.5 | 9.1 | 12.3 | 94.3 | 22.1 | 40.1 | 218.9 |
| 1976 | 4.36 | 4.1 | n.a. | 1.63 | 2.2 | -0.4 | 5.99 | 6.3 | n.a. | 9.9 | 13.4 | 82.5 | 28.3 | 45.6 | 257.9 |
| 1977 | 4.72 | 4.9 | n.a. | 1.45 | 2.3 | -1.3 | 6.18 | 7.2 | n.a. | 10.4 | 13.9 | 74.1 | 31.9 | 48.1 | 304.0 |
| 1978 | 5.56 | 6.2 | n.a. | 2.41 | 2.5 | -2.9 | 7.97 | 9.7 | n.a. | 14.8 | 16.0 | 76.3 | 36.7 | 52.4 | 355.2 |
| 1979 | 8.10 | 7.6 | n.a. | 1.89 | 2.9 | -0.8 | 9.99 | 10.5 | n.a. | 20.1 | 17.8 | 86.2 | 46.8 | 64.9 | 411.9 |
| 1980 | 9.40(E) | 9.0 | n.a. | 2.19 | 3.0 | 0.2 | 11.59(E) | 12.0 | n.a. | 25.4 | 19.5 | 101.8 | 48.2 | 66.9 | 400.7 |

Sources: Calculated from the Central Statistical Office, Annual Abstract of Statistics, 1982 (London: HMSO, 1982), Table 3.11, pp. 62-63 and Table 14.7, p. 350; Central Statistical Office, National Income and Expenditure (London: HMSO, various years); Central Statistical Office, Financial Statistics (London: HMSO, various years); G. Francis Green, The Increase in Aggregate U.K. Pension Savings, Kingston Polytechnic, Discussion Paper in Political Economy No. 28, 1980, revised Table 1, p. 3; Statistics Canada, Financial Statistics, 1980 (Ottawa: Minister of Supply and Services, 1982), Text Table IV, p. 12; Statistics Canada, Canadian Statistical Review (Ottawa: Minister of Supply and Services, various years) and the U.S. Department of Commerce, Statistical Abstract of the United States (Washington, D.C.: GPO, various years), Series 534, 547, 700 and 718.

APPENDIX F

NET PRIVATE AND TOTAL PENSION SAVING
AS A PERCENTAGE OF
GROSS BUSINESS AND TOTAL INVESTMENT,
CANADA, 1960-1980

| Year | Net Pension Saving ¹ (\$ Billion) | | Capital and Repair Expenditures (\$ Billion) | | Net Private Pension Saving as a % of Investment | | Net Total Pension Saving as a % of Investment | |
|------|---|--------------------|---|--------------------|--|-------|---|-------|
| | Private ² | Total ³ | Business ⁴ | Total ⁵ | Business | Total | Business | Total |
| 1960 | \$4.4 | \$4.4 | \$6.5 | \$8.4 | 6.8% | 5.4% | 6.8% | 5.2% |
| 1965 | n.a. | n.a. | 10.3 | 12.9 | n.a. | n.a. | n.a. | n.a. |
| 1970 | 1.3 | 2.6 | 14.3 | 17.8 | 9.1 | 7.3 | 18.2 | 14.6 |
| 1971 | n.a. | n.a. | 15.9 | 20.2 | n.a. | n.a. | n.a. | n.a. |
| 1972 | n.a. | n.a. | 17.9 | 22.2 | n.a. | n.a. | n.a. | n.a. |
| 1973 | 2.1 | 3.7 | 22.1 | 26.6 | 9.5 | 7.9 | 16.7 | 13.9 |
| 1974 | 2.6 | 4.3 | 27.3 | 32.9 | 9.5 | 7.9 | 15.8 | 13.1 |
| 1975 | 3.2 | 4.9 | 37.7 | 38.2 | 8.5 | 8.4 | 12.9 | 12.8 |
| 1976 | 4.1 | 6.3 | 37.1 | 43.7 | 11.1 | 9.4 | 16.9 | 14.4 |
| 1977 | 4.9 | 7.2 | 39.6 | 46.6 | 10.5 | 10.5 | 18.2 | 15.5 |
| 1978 | 6.2 | 9.7 | 42.9 | 50.4 | 14.5 | 12.3 | 22.6 | 19.3 |
| 1979 | 7.6 | 10.5 | 50.6 | 58.4 | 15.0 | 13.0 | 20.8 | 17.8 |
| 1980 | 9.0 | 12.0 | 57.4 | 66.2 | 15.7 | 13.6 | 20.9 | 18.1 |

- Notes: 1. Net pension saving is equal to contributions plus investment income minus benefits and administrative costs. Administrative costs have not been deducted and are of a second order magnitude.
2. Truited and insured pension plans, excluding pay-as-you-go general revenue employee pension plans.
3. Canada/Quebec Pension Plans plus private trustee pension plans.
4. Including capital expenditures on residential and non-residential construction plus machinery and equipment.
5. Government plus business.

Sources: Calculated from Appendix E and Statistics Canada, "Capital and Repair Expenditures", CANSIM Series.

APPENDIX G-1

SOURCES OF FUNDS
OF NON-FINANCIAL CORPORATIONS,¹
CANADA, \$ MILLION, 1963-67 - 1978-82

| Sources of Funds | 1963-67 | | 1968-72 | | 1973-77 | | 1978-82 | | Average, 1963-1982 |
|-----------------------------|----------|-------|----------|-------|----------|-------|-----------|-------|-----------------------|
| | \$ | % | \$ | % | \$ | % | \$ | % | |
| A. Internal | \$26,296 | 56.3 | \$36,564 | 58.7 | \$69,460 | 54.2 | \$116,723 | 44.4 | 53.4 |
| (1) Net Saving | 9,819 | 21.0 | 12,089 | 19.4 | 23,300 | 18.2 | 27,294 | 10.4 | 17.3 |
| (2) Depreciation Allowances | 16,477 | 35.3 | 24,475 | 39.3 | 46,160 | 36.0 | 89,429 | 34.0 | 36.2 |
| B. External | 20,389 | 43.7 | 25,687 | 41.3 | 58,773 | 45.8 | 145,936 | 55.6 | 46.6 |
| (1) Stocks & Claims | 5,531 | 11.9 | 6,392 | 10.3 | 10,924 | 8.5 | 41,035 | 15.6 | 11.6 |
| (2) Bonds & Mortgages | 6,439 | 13.8 | 8,212 | 13.2 | 10,798 | 8.5 | 19,248 | 7.3 | 10.8 |
| (3) Trade Debt | 3,794 | 8.1 | 4,014 | 6.4 | 12,959 | 10.1 | 24,302 | 9.3 | 8.5 |
| (4) Other Debt | 3,475 | 7.4 | 5,646 | 9.1 | 17,534 | 13.7 | 46,192 | 17.6 | 11.9 |
| (5) Other Sources | 1,130 | 2.4 | 1,423 | 2.3 | 6,558 | 5.1 | 15,159 | 5.8 | 3.9 |
| C. Total Sources | 46,685 | 100.0 | 62,251 | 100.0 | 128,233 | 100.0 | 262,659 | 100.0 | 100.0 |

Note: 1. Non-financial corporations with assets of \$10 million or more, excluding unincorporated businesses.

Source: Calculated from Statistics Canada, National Flow Accounts (Ottawa: Minister of Supply and Services, various years) and from information supplied to the author by the Corporate Finance Division, federal Department of Finance, February 1984.

APPENDIX G-2

SOURCES OF CORPORATE FUNDS, UNITED STATES, \$ BILLION, SELECTED YEARS, 1960-1980

| Sources of Funds | 1960 | | 1965 | | 1970 | | 1975 | | 1980 | | Average, 1960-1980 |
|---------------------|------|-------|------|-------|-------|-------|-------|-------|-------|-------|-----------------------|
| | \$ | % | \$ | % | \$ | % | \$ | % | \$ | % | |
| A. Internal Sources | 35.4 | 72.7 | 58.5 | 62.6 | 61.8 | 57.0 | 119.7 | 71.3 | 196.8 | 58.6 | 58.9 |
| B. External Sources | | | | | | | | | | | |
| (1) Other | 1.2 | 2.5 | 14.8 | 15.8 | 5.3 | 4.9 | 6.5 | 3.9 | 33.2 | 9.9 | 11.1 |
| (2) Debt | | | | | | | | | | | |
| (i) Short-Term | 4.6 | 9.5 | 11.0 | 11.8 | 9.0 | 8.3 | -8.0 | -4.8 | 39.7 | 11.8 | 11.2 |
| (ii) Long-Term | 6.1 | 12.5 | 9.3 | 9.9 | 26.4 | 24.4 | 39.8 | 23.7 | 53.6 | 15.9 | 16.5 |
| (iii) Total Debt | 10.7 | 22.0 | 20.3 | 21.7 | 35.4 | 32.8 | 31.8 | 18.9 | 93.3 | 27.7 | 27.7 |
| (3) Equity Issues | 1.4 | 2.9 | 0.0 | 0.0 | 5.7 | 5.3 | 9.9 | 5.9 | 12.9 | 3.8 | 2.4 |
| (4) Total External | 13.3 | 27.3 | 35.1 | 37.4 | 46.4 | 43.0 | 48.3 | 28.7 | 139.4 | 41.4 | 41.2 |
| C. Total Sources | 48.7 | 100.0 | 93.5 | 100.0 | 108.1 | 100.0 | 167.9 | 100.0 | 336.2 | 100.1 | 100.1 |

Source: Calculated from the U.S. Department of Commerce, Statistical Abstract of the United States (Washington, D.C.: GPO, 1982), Series 916, p. 544.

APPENDIX G-3

SOURCES OF CASH FLOW
FOR INDUSTRIAL AND COMMERCIAL COMPANIES, BRITAIN,
£ BILLION, 1970-1976

| Sources of Cash Flow | 1970 | | 1971 | | 1972 | | 1973 | | 1974 | | 1975 | | 1976 | | Average 1970-1976 |
|--------------------------|------|-------|-------|--------|------|-------|------|-------|-------|-------|-------|--------|------|-------|----------------------|
| | £ | % | £ | % | £ | % | £ | % | £ | % | £ | % | £ | % | |
| A. Internal Cash Flow | 3.5 | 66.0 | 4.3 | 86.0 | 5.2 | 74.3 | 7.4 | 69.2 | 8.6 | 64.2 | 9.1 | 97.9 | 11.7 | 82.4 | 77.1 |
| B. External Cash Flow | | | | | | | | | | | | | | | |
| (1) Investment Grants | 0.5 | 9.4 | 0.6 | 12.0 | 0.4 | 5.7 | 0.4 | 3.7 | 0.4 | 2.9 | 0.4 | 4.3 | 0.4 | 2.8 | 5.8 |
| (2) Other Liabilities | 0.3 | 5.7 | 0.2 | 4.0 | 0.2 | 2.9 | 0.8 | 7.5 | 0.1 | 0.7 | 0.5 | 5.4 | 0.6 | 4.2 | 4.3 |
| (3) Debt | | | | | | | | | | | | | | | |
| (i) Short-Term | 0.9 | 16.9 | (0.5) | (10.0) | 0.6 | 8.6 | 1.9 | 17.8 | 4.4 | 32.8 | (1.8) | (19.4) | 0.7 | 4.9 | 7.4 |
| (ii) Long-Term | 0.0 | 0.0 | 0.2 | 4.0 | 0.3 | 4.3 | 0.1 | .9 | (0.1) | (0.7) | 0.1 | 1.2 | 0.0 | 0.0 | 1.3 |
| (iii) Total Debt | 0.9 | 16.9 | (0.3) | (6.0) | 0.9 | 12.9 | 2.0 | 18.7 | 4.3 | 32.1 | (1.7) | (18.3) | 0.7 | 4.9 | 8.7 |
| (4) Share Issues | 0.1 | 1.9 | 0.2 | 4.0 | 0.3 | 4.3 | 0.1 | 0.9 | 0.0 | 0.0 | 1.0 | 10.8 | 0.8 | 7.0 | 4.1 |
| (5) Total External | 1.8 | 33.9 | 0.7 | 14.0 | 1.8 | 25.7 | 3.3 | 30.8 | 4.8 | 35.8 | 0.2 | 2.1 | 2.5 | 17.6 | 22.8 |
| C. Total Cash Flow | 5.3 | 100.0 | 5.0 | 100.0 | 7.0 | 100.0 | 10.7 | 100.0 | 13.4 | 100.0 | 9.3 | 100.0 | 14.2 | 100.0 | 100.0 |

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Source: Calculated from The Stock Exchange, Evidence to the Committee to Review the Functioning of Financial Institutions (London: TSE, July 1977), Table 2, p. 14.

APPENDIX H

VALUE OF TOTAL NET PENSION FUND
ACQUISITION OF EQUITIES AS A PERCENTAGE OF NEW
CORPORATE EQUITIES PUBLICLY OFFERED FOR SALE,
UNITED STATES, 1970-1981

| Year | Value of Total Net Pension Fund Acquisition of Equities ² (Flow in \$ Million) | New Corporate Equities Publicly Offered for Sale (\$ Million) | Net Pension Fund Equity Acquisitions as a % of New Corporate Equity Sales |
|--------------------|---|--|--|
| 1970 ¹ | 1,494 | 6,849 | 21.8 |
| 1975 ¹ | -532 | 7,179 | (-7.4) |
| 1976 | 21,100 | 8,296 | 254.3 |
| 1977 | -7,800 | 7,857 | (-99.3) |
| 1978 | 6,000 | 7,760 | 77.3 |
| 1979 | 15,800 | 8,581 | 184.1 |
| 1980 | 52,100 | 18,718 | 278.3 |
| 1981 | -8,700 | 24,716 | (-35.2) |
| 1970-1981 Average: | | | 163.2% |

Note: 1. Annualized.
2. Primary and secondary market purchases.

Source: Net pension fund flow into corporate equities derived from the U.S. Department of Commerce, Statistical Abstract of the United States, 1982-83 (Washington, D.C.: GPO, 1982), Series 537, p. 330 and new corporate equities offered for sale, Series 858, p. 518.

APPENDIX I-1

ESTIMATED
REGISTERED RETIREMENT SAVINGS PLAN (RRSP)
ASSETS IN CANADA, 1960-1990

| Year | Estimated Assets (\$ Billion) |
|-------------------|----------------------------------|
| 1960 ¹ | \$0.98 |
| 1961 | 0.13 |
| 1962 | 0.16 |
| 1963 | 0.21 |
| 1964 | 0.27 |
| 1965 | 0.34 |
| 1966 | 0.44 |
| 1967 | 0.56 |
| 1968 | 0.72 |
| 1969 | 0.93 |
| 1970 | 1.2 |
| 1971 | 1.5 |
| 1972 | 1.9 |
| 1973 | 2.5 |
| 1974 | 3.2 |
| 1975 | 4.2 |
| 1976 | 5.3 |
| 1977 | 6.9 |
| 1978 | 8.8 |
| 1979 | 11.3 |
| 1980 | 14.5 |
| 1981 | 18.6 |
| 1982 ² | 20.5 |
| 1983 | 23.3 |
| 1984 | 26.1 |
| 1985 | 28.9 |
| 1986 | 31.7 |
| 1987 | 34.6 |
| 1988 | 37.4 |
| 1989 | 40.2 |
| 1990 | 43.0 |

- Notes: 1. Assets between 1960 and 1982 are estimated using an exponential regression equation based on actual assets between 1977 and 1981 as reported to the author by the Financial Institutions Section, Business Finance Division, Statistics Canada. Earlier work by the Task Force on Retirement Income Policy, The Retirement Income System in Canada, Vol. 1 (Hull: Canadian Government Publishing Centre, 1979), p. 74 and Harry Weitz, "Contributors and Contributions to Registered Retirement Savings Plans in Ontario", Report of the Royal Commission in the Status of Pensions in Ontario, Vol. VIII (Toronto: Queen's Printer, 1981), p. 129 used the "withdrawal rate" method so that gross RRSP contributions minus an arbitrary withdrawal rate assumption were equated to RRSP assets.
2. After 1982 the system is assumed to be at maturity and assets are therefore estimated on the basis of a straight-line fit.

APPENDIX I-2
COMPARISON OF ACTUAL
AND
ESTIMATED RRSP ASSETS,
CANADA, 1977-1981

| <u>Year</u> | <u>\$ Billion</u> | | <u>% Differential</u> |
|-------------|-------------------|------------------------------|-----------------------|
| | <u>Actual</u> | <u>Estimated¹</u> | |
| 1977 | \$6.4 | \$6.9 | +7.8% |
| 1978 | 9.3 | 8.8 | -5.4 |
| 1979 | 11.9 | 11.3 | -5.0 |
| 1980 | 14.5 | 14.5 | 0.0 |
| 1981 | 17.9 | 18.6 | +3.9 |

Note: 1. Estimated on the basis of an exponential regression equation as reported in Appendix I-1.

APPENDIX I-3

ESTIMATED REGISTERED RETIREMENT SAVINGS PLAN ASSETS
INVESTED IN EQUITY, BILLION DOLLARS,
CANADA, 1960-1980

| Year | Estimated RRSP Assets | X | Percentage Invested in Equity ¹ | = | RRSP Assets Invested in Equity |
|------|--------------------------|---|---|---|-----------------------------------|
| 1960 | \$0.98 | | 8 % | | \$0.078 |
| 1961 | 0.13 | | 8 | | 0.010 |
| 1962 | 0.16 | | 8 | | 0.013 |
| 1963 | 0.21 | | 8 | | 0.017 |
| 1964 | 0.27 | | 8 | | 0.022 |
| 1965 | 0.34 | | 8 | | 0.027 |
| 1966 | 0.44 | | 8 | | 0.035 |
| 1967 | 0.56 | | 8 | | 0.045 |
| 1968 | 0.72 | | 8 | | 0.058 |
| 1969 | 0.93 | | 8 | | 0.074 |
| 1970 | 1.2 | | 8 | | 0.096 |
| 1971 | 1.5 | | 8 | | 0.120 |
| 1972 | 1.9 | | 8 | | 0.152 |
| 1973 | 2.5 | | 8 | | 0.200 |
| 1974 | 3.2 | | 8 | | 0.256 |
| 1975 | 4.2 | | 8 | | 0.336 |
| 1976 | 5.3 | | 8 | | 0.424 |
| 1977 | 6.9 | | 7 | | 0.483 |
| 1978 | 8.8 | | 6 | | 0.528 |
| 1979 | 11.3 | | 5 | | 0.565 |
| 1980 | 14.5 | | 4 | | 0.580 |

Note: 1. Between 1960 and 1976 it was assumed that RRSP equity investment was one-third of that for trustee pension plans. This assumption is based on a study carried out and reported by the Trust Companies Association of Canada, Submission to the Royal Commission on the Status of Pensions in Ontario (Toronto, May 1978), Table 6, VIII-24 and studies by Statistics Canada for 1981 and 1982. According to these studies equity investment by RRSPs declined from 7 per cent in 1977 to 2 per cent in 1982. The bulk of funds are invested in mortgages. RRSP assets now represent nearly 40 per cent of total trustee pension plan assets. Earlier studies erroneously assumed that RRSP asset mix was similar to that for trustee pension plans.

Sources: For RRSP assets, Appendix I-1, op. cit. and Statistics Canada, Trustee Pension Plans Financial Statistics (Ottawa: Minister of Supply and Services, various years).

APPENDIX J

VALUE OF STOCK LISTED
ON TORONTO STOCK EXCHANGE,
ADJUSTED FOR CONTROL BLOCKS, 1966-1980

| Year | Value of TSE Stocks (\$ Billion) | X | Control Blocks (In Per Cent) | = | Value of TSE Stocks, Adjusted for Control Blocks (\$ Billion) |
|------|--|---|------------------------------------|---|--|
| 1966 | \$35.4 | | 30% | | \$10.4 |
| 1970 | 46.5 | | 50 | | 23.3 |
| 1971 | 50.3 | | 50 | | 25.2 |
| 1972 | 64.5 | | 50 | | 32.3 |
| 1973 | 62.5 | | 50 | | 31.3 |
| 1974 | 44.2 | | 50 | | 22.1 |
| 1975 | 51.6 | | 50 | | 25.8 |
| 1976 | 56.9 | | 50 | | 28.5 |
| 1977 | 62.4 | | 50 | | 31.2 |
| 1978 | 79.4 | | 70 | | 55.6 |
| 1979 | 112.6 | | 70 | | 78.8 |
| 1980 | 139.4 | | 70 | | 97.6 |

Sources: Calculated from estimates for control blocks from the Bank of Nova Scotia, "The Stock Market in Canada: Post War Forces of Supply and Demand", Monthly Review, October 1960, p. 1 and estimates by Dr O.M. Petrovici, Percentage of Pension Plan Stocks (Mkt Value) vs. Canadian QMV Stocks Listed on TSE. Paper No. 2 prepared for the Toronto Stock Exchange, 1976, p. 3, 4 and 7.

APPENDIX K-1

ASSETS OF FINANCIAL INTERMEDIARIES,
CANADA, 1946 AND 1979

| Financial Intermediary | \$ Million | |
|---------------------------------|------------|-------------------------------|
| | 1946 | 1979 |
| Chartered Banks | 6,924 | 210,200 |
| Private Non-bank Intermediaries | 4,926 | 188,600 |
| Trusteed Pension Funds | 455 | 43,200 (32,400 ¹) |
| Life Insurance Companies | 3,066 | 41,400 ² |
| Trust Companies | 305 | 33,400 (44,200 ³) |
| Local and Central Credit Unions | 188 | 32,500 |
| Construction Loan Companies | 124 | 14,100 |
| Mortgage Loan Companies | 288 | 12,300 |
| Property and Casualty Companies | 352 | 10,400 |
| Investment Companies | 148 | 1,300 |
| Total | 11,850 | 398,800 |

- Note: 1. Excluding corporate trustee pension fund assets under management by trust companies.
2. Canadian business only. Including life insurance and accident and sickness policies (\$2.3 billion) plus the segregated (pension) funds (\$5.5 billion) of life firms.
3. To place the assets of trust companies on a comparable basis with life companies requires that all assets under their control be included as in the case of life insurance company assets (S & A, segregated funds and life policies). Nearly 25 per cent of all trustee pension fund assets, or \$10.8 billion, are controlled by trust companies and are included here. The total asset base of trust companies is therefore greater than that of life insurance companies.

Sources: Retabulated and calculated from E.P. Neufeld, The Financial System of Canada: Its Growth and Development (Toronto: MacMillan Co., 1972) and updated for 1979 from Statistics Canada, Financial Institutions, Financial Statistics, Fourth Quarter 1979 (Ottawa: Statistics Canada, 1980).

APPENDIX K-2

ASSETS OF FINANCIAL
AND NONFINANCIAL INSTITUTIONS, U.S., 1950 AND 1980

| Sector | \$ Billion | |
|-------------------------------|------------|---------|
| | 1950 | 1980 |
| Commercial banking | 147.8 | 1,386.3 |
| Nonbank Finance | 138.8 | 2,375.5 |
| Savings and loan associations | 16.9 | 629.8 |
| Pension funds ¹ | 11.7 | 484.9 |
| Life insurance | 62.6 | 469.8 |
| Finance companies | 9.3 | 198.6 |
| Other insurance | 12.6 | 180.1 |
| Mutual savings banks | 22.4 | 171.5 |
| Money market funds | n.a. | 74.4 |
| Credit unions | n.a. | 69.2 |
| Investment companies | 3.3 | 63.7 |
| Security brokers and dealers | n.a. | 33.5 |
| Total | 286.6 | 3,761.8 |

Note: 1. Private non-insured and insured pension funds plus government (state and local) retirement funds.

Source: Retabulated and calculated from the U.S. Department of Commerce, Statistical Abstract of the United States, 1970 and 1982-83 (Washington, D.C.: GPO, various years), Series 639, p. 437 and Series 813, p. 500.

APPENDIX K-3

ASSETS OF FINANCIAL INSTITUTIONS,
BRITAIN, 1962 AND 1980

| Institution | £ Billion | |
|----------------------------|--------------------------------------|--|
| | 1963 | 1980 |
| Banks ¹ | 9.1 | 331.7 |
| Non-bank Finance | 21.3 | 252.0 |
| Pension funds | 5.8 ² (4.3 ³) | 85.0 ² (63.8 ³) |
| Life Companies | 7.4 ⁴ (5.9 ³) | 74.3 ⁴ (53.1 ³) |
| Building Societies | 4.0 | 62.8 |
| Unit and Investment Trusts | 3.1 | 16.1 |
| Other | 1.0 | 13.8 |
| Total | 30.4 | 583.7 |

- Note: 1. Including London clearing banks, Scottish and Northern Ireland banks and other deposit banks.
2. Including private, public and local authority pension funds plus estimated insured pension assets of life companies.
3. Excluding insured pension assets of life companies.
4. Including insured pension assets.

Source: Retabulated and calculated from Central Statistics Office, Financial Statistics, 1963 and 1981 (London: HMSO, various years).

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